The Portsmouth Plaza Parking Corporation Board Was Not Equipped to Effectively Manage the Portsmouth Plaza Parking Garage Renovation Project and the Recreation and Park Department, as the Project Owner, Did Not Adequately Monitor the Project

Recreation and Park Department

AUDITS DIVISION

August 1, 2022

City & County of San Francisco
Office of the Controller
City Services Auditor

About the Audits Division

The City Services Auditor (CSA) was created in the Office of the Controller through an amendment to the Charter of the City and County of San Francisco (City) that voters approved in November 2003. Within CSA, the Audits Division ensures the City's financial integrity and promotes efficient, effective, and accountable government by:

- Conducting performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of service delivery and business processes.
- Investigating reports received through its whistleblower hotline of fraud, waste, and abuse of city resources.
- Providing actionable recommendations to city leaders to promote and enhance accountability and improve the overall performance and efficiency of city government.

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Audit Authority

This audit was conducted under the authority of the San Francisco Charter, Section 3.105 and Appendix F, which requires that CSA conduct periodic, comprehensive financial and performance audits of city departments, services, and activities.

OFFICE OF THE CONTROLLER
CITY AND COUNTY OF SAN FRANCISCO

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

August 1, 2022

Recreation and Park Commission
501 Stanyan Street
San Francisco, CA 94117

Philip A. Ginsburg, General Manager
Recreation and Park Department
501 Stanyan Street
San Francisco, CA 94117

Dear Commission President, Commissioners, and Mr. Ginsburg:

The Office of the Controller, City Services Auditor (CSA), Audits Division, presents the report of the performance audit of the processes used to make the recent capital improvements at the Portsmouth Square Parking Garage. These improvements were agreed upon by the City and County of San Francisco (City) through the Recreation and Park Department (Rec & Park) and Portsmouth Plaza Parking Corporation (PPPC). The audit had as its objectives to determine how effective and economical PPPC's processes were for the garage renovation project and whether the PPPC Board's reporting on the progress of the project to the City complied with requirements. CSA engaged Sjoberg Evashenk Consulting, Inc., (SEC) to conduct the audit.

The audit found that the PPPC Board was ill-equipped to effectively manage the renovation project, causing it to be $4.5 million (52 percent) overbudget, completed a year late, and missing at least $1 million worth of planned work. As the project owner, Rec & Park was responsible to oversee the garage renovation project on the City's behalf, a responsibility that cannot be delegated. SEC concludes that Rec & Park did not take steps necessary to ensure the project was properly executed.

The report includes two recommendations for Rec & Park to improve its monitoring of future renovations at Portsmouth Square Parking Garage and to evaluate its approach to overseeing the PPPC Board's management of the renovation project. The responses of Rec & Park and the PPPC Board are attached as an appendix. CSA will work with the department to follow up every six months on the status of the open recommendations made in this report.

CSA and SEC appreciate the assistance and cooperation of Rec & Park staff and the PPPC Board members involved in this audit. For questions about the report, please contact me at mark.p.delarosa@sfgov.org or 415-554-7574 or CSA at 415-554-7469.

Respectfully,

Mark de la Rosa
Director of Audits

cc: Board of Supervisors
Budget Analyst
Citizens Audit Review Board
City Attorney
Civil Grand Jury
Mayor
Public Library

City and County of San Francisco
City Services Auditor

Performance Audit of the Portsmouth Square Parking Garage Renovation Project

April 2022

SJOBERG EVASHENK
CONSULTING, INC

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Executive Summary

The City and County of San Francisco (City) Office of the Controller's City Services Auditor engaged Sjoberg Evashenk Consulting, Inc., to conduct a performance audit of the processes used to make the recent capital improvements at the City-owned Portsmouth Square Parking Garage. The audit's objectives were to determine how effective and economical the Portsmouth Plaza Parking Corporation (PPPC) Board's processes were for the renovation project at the garage and whether the PPPC Board's reporting on the progress of the project to the City complied with requirements.

The PPPC Board was ill-equipped to effectively manage the renovation project, causing it to be $4.5 million (52 percent) overbudget, completed a year late, and missing at least $1 million worth of planned work.

Although the PPPC Board's Renovation Committee employed a few good practices, such as conducting regular project meetings and hiring professional cost estimators to set the project budget, its attempts to manage the project were ineffective. The Renovation Committee struggled to use appropriate procurement processes, contain project costs, maintain project scope, adhere to schedules, manage multiple consultants and contractors, oversee project activities and work progress, and keep critical project documentation. For example, the committee procured services for the project in ways that lacked evidence of adequate competitive selection processes or sole source justifications. In one instance, construction management services were secured after appropriate selection protocols were circumvented.

Project expenses significantly exceeded the budget. The PPPC Board incurred about $13.2 million in project-related expenses to complete $8.7 million[1] in budgeted priority scope items, an overrun of $4.5 million[2] (52 percent). The main components of the overrun were due to:

- General Contractors. More than $2 million of the cost overrun relates to the general contractor budget category, largely the result of rework and overbillings and the costs associated with the transitions between the three general contractors that worked on the project without proper comparative cost data to complete outstanding work.

- Professional Consultants. About $1 million of the cost overrun is in the professional consultant category, including the cost of the transitions between the three construction managers that worked on the project.

- Unbudgeted Items. Another $1.6 million of the cost overrun is attributed to unbudgeted items, including legal fees associated with a lawsuit that a project participant filed against the PPPC Board.

[1] The total project budget was $11.9 million: $8.7 million for priority scope items and $3.2 million for future projects and contingencies.
[2] Includes more than $500,000 in project costs that were underbudget, as shown in Exhibit 7.

Due to the cost overrun, more than $1 million of the project's planned construction work was not completed (and was eliminated), including roll-up doors, painting, roll-down security grills, and an emergency generator. However, due to conflicting cost data, the eliminated items could be worth significantly more than $1 million.

Further, although project schedules were used, the start of construction activities was delayed by several years and once construction began, contractor turnover and work stoppages ultimately delayed the project's completion by a year. The project would have been further delayed had the PPPC Board not significantly reduced the project scope.

Project documentation suggests that project participants followed industry best practices in that they held multiple types of project meetings for communication and coordination activities and efforts, including project coordination meetings, owner/architect/contractor meetings, and Renovation Committee meetings. However, the detail of project information provided at PPPC Board meetings appeared inconsistent and insufficient for the Board to properly oversee the Renovation Committee or the project. Also, we found no Board motions addressing critical aspects of the project. For example, it appears the Board did not formally act to:

- Approve the selection of contractors or consultants.
- Award contracts to contractors or consultants.
- Remediate issues related to inadequate work quality, project budget overruns, or work running behind schedule.

Rather, much of the decision-making for the project was left to the Renovation Committee, although the Board did not formally specify the level of authority the committee had to make project decisions or what decisions required a vote of the full Board.

Despite the problems discussed above, the garage renovation project appropriately involved site visits by the project architect and engineering subconsultants, and field observation reports identified routine and typical issues that may be encountered in any construction project. In addition to the San Francisco Department of Building Inspection approving the project, the project architect issued a substantial completion memo, which, according to industry standards, means the project was sufficiently complete in accordance with the contract documents and the work could be used for its intended purpose.

As the project owner, Rec & Park was responsible to oversee the garage renovation project on the City's behalf, a responsibility that cannot be delegated; however, it did not take necessary steps to ensure the project was properly executed and must better oversee any similar project in the future.

We found confusion among project stakeholders as to which entity had the overall responsibility as the renovation project owner, a role characterized as having the overall authority for the project and the responsibility to define the project's scope and budget, provide funding, and ensure proper project execution and delivery. Clearly, the City had the overall responsibility for the $13 million renovation project because the City owns the garage, is the sole shareholder of the PPPC, and bears all the financial risk associated with the renovation project's outcome. Further, as acknowledged by the San Francisco Recreation & Park Department (Rec & Park), it acts as the garage owner on behalf of the City. In this capacity, Rec & Park leases the garage to the PPPC, provides authoritative direction to the PPPC, receives from the PPPC revenue generated by garage operations, uses parking revenue from the garage to finance the garage's capital improvements, and owns the capital improvements resulting from the renovation project. For these reasons, Rec & Park was the renovation project owner and, as such, was responsible to oversee the project on the City's behalf.

Rec & Park states that its involvement with the garage renovation project was limited. However, unlike other tenant improvements in which the tenant retains most or all of the risk, the City assumed all risk associated with the garage renovation project. This is because the City, through Rec & Park, owns the improvements, is solely liable for financing the improvements, and benefits from any return on investment from the improvements. Because of the risk to the City, the renovation project required far more robust oversight than Rec & Park provided, and thus, Rec & Park did not fulfill its responsibility as the project owner. According to previous and current Rec & Park management, the PPPC Board has a history of resisting City oversight involving any aspect of the garage facility and activities.

As the project owner, Rec & Park may assign or delegate certain project activities, such as day-to-day project management, to other parties to do work on its behalf and/or for its benefit. However, a project owner must be sufficiently involved in project oversight to assess whether the other party is successfully fulfilling its duties. If it finds that the other party has not fulfilled these duties, the project owner must take corrective action. Importantly, Rec & Park cannot delegate to anyone its ultimate responsibility to ensure proper execution and delivery of the project; that responsibility rests solely with Rec & Park as the project owner. Rec & Park should not have left the day-to-day management and oversight of the renovation project to the PPPC Board, whose members are unpaid volunteers with little experience constructing publicly funded capital projects.

Also, it does not appear that the City—neither Rec & Park nor any other department—consistently reviewed project contracts to ensure required elements were included. This may explain why some of the City's standard contract provisions meant to protect the project owner's interests were missing and how significantly conflicting duties, which are incompatible and should not have been assigned to the same party, were allowed to be in at least two construction management contracts.

Recommendations. To avoid future problems at the Portsmouth Square Garage such as those found by this audit and ensure proper execution and delivery of future capital improvement projects funded by the City, Rec & Park should:

1. Adequately oversee projects undertaken at the Portsmouth Square Garage. Consider formally enlisting the support of other City departments, such as the Municipal Transportation Agency and Department of Public Works, to assist with project oversight, including the following:
    a. Develop project charters to clearly identify the roles of all capital improvement project participants.
    b. Ensure project responsibilities are only delegated to those with sufficient expertise, resources, infrastructure, and capacity to properly perform the duties assigned to them.
    c. Ensure each capital improvement project participant formally accepts and acknowledges its assigned responsibilities.
    d. Define capital project scope, schedule, and budget in addition to approving changes, as appropriate.

e. Institute procedures to ensure lessees cannot enter into project contracts unless Rec & Park has verified that required elements are included and the City's interests are adequately protected.

2. Conduct a post-mortem evaluation of its approach to overseeing the PPPC Board's management of the renovation project. That is, consider whether the approach used is indicative of how the PPPC Board's compliance with other provisions of the lease agreement is monitored. Identify lessons learned that can be applied to the department's monitoring of all PPPC activities undertaken pursuant to the lease agreement and whether any adjustments are required, including whether the PPPC Board should be permitted to manage renovation projects at the garage in the future.

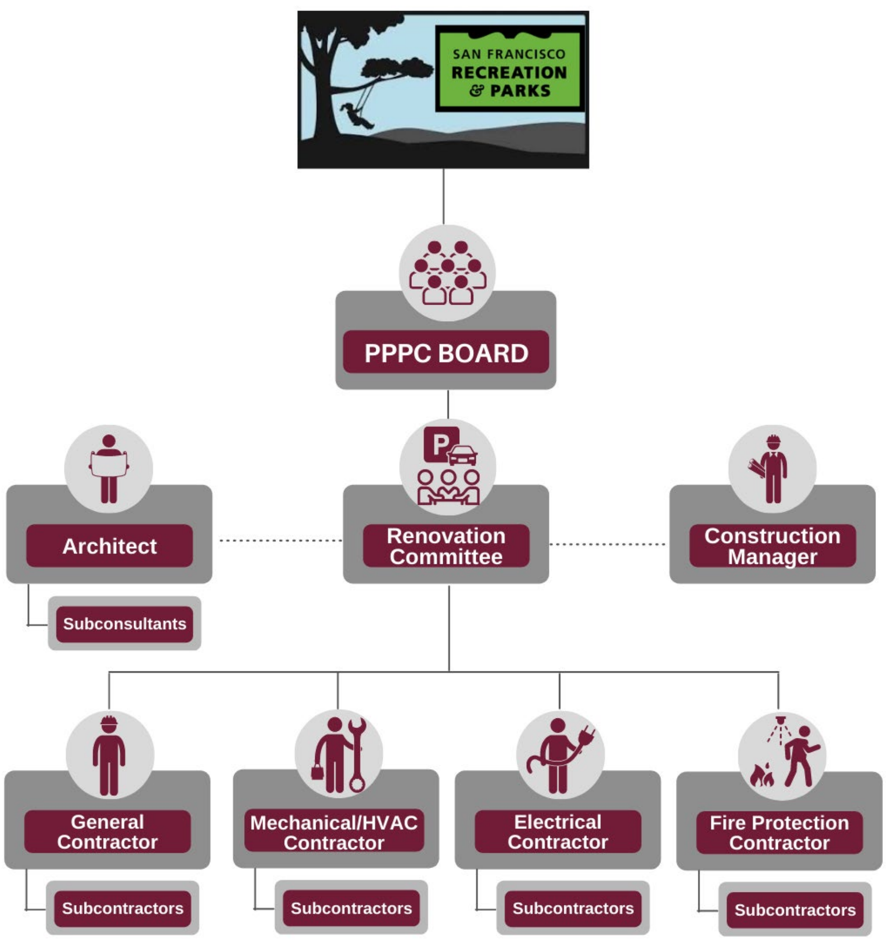
Introduction

Owned by the City and County of San Francisco (City) and administered by the City's Recreation and Park Department (Rec & Park), the Portsmouth Square Parking Garage supports Chinatown businesses and residents. Composed of community members, the Board of Directors (Board) of the Portsmouth Plaza Parking Corporation (PPPC) has managed the garage since it was built in in the early 1960s.

In 2002, the PPPC Board authorized an engineering report for the improvement and renovation of the garage. Nearly a decade later, in 2011, the City's Board of Supervisors approved a 40-year lease agreement (lease) between the City (through Rec & Park) and the PPPC that includes renovating the garage. The project was intended to improve multiple aspects of the garage, including installing new drainage, repairing concrete, replacing stairways, replacing the ventilation system, adding new office and conference room space, installing security gates and doors, improving lighting, installing sprinklers and fire alarms, and installing a new generator. A bank loan funded the project and was to be repaid with parking garage revenues.

Exhibit 1 shows the organization of entities that undertook the garage renovation project.

EXHIBIT 1. RENOVATION PROJECT ORGANIZATION



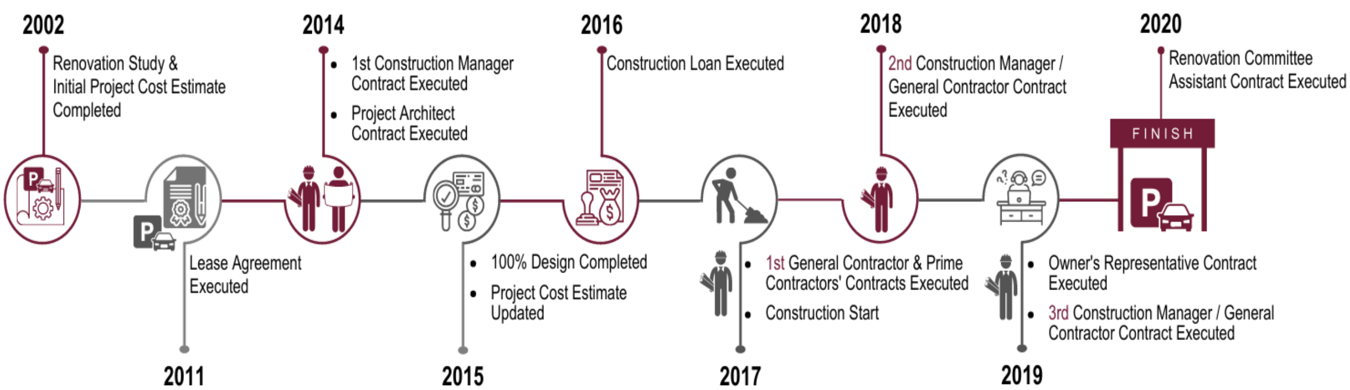
The PPPC Board hired a number of professional services consultants and construction contractors to complete the renovation project, as shown in Exhibit 2.

EXHIBIT 2. KEY CONTRACTORS ON GARAGE RENOVATION PROJECT

Role		Firm Name	Contract Execution
1	Construction Manager #1	Josehart Construction Management, Inc.	February 2014
2	Construction Manager #2	Arana Group, Inc.	September 2018
3	Construction Manager #3	LMNOP Design, Inc.	June 2019
4	Project Architect	Beth Morris Architecture	November 2014
5	General Contractor #1	Alpha Bay Builders, Inc.	April 2017
6	General Contractor #2	Arana Group, Inc.	September 2018
7	General Contractor #3	LMNOP Design, Inc.	June 2019
8	Electrical Contractor	Edward W. Scott Electric Co. Inc.	March 2017
9	Mechanical/HVAC Contractor	Marina Mechanical	March 2017
10	Fire Protection Contractor	Value Fire Protection, Inc.	April 2017
11	Owner's Representative	KML Associate Committee	May 2019
12	Renovation Committee Assistant	Y-Learning & Consulting	December 2019

The project was the first comprehensive effort to update the facility since it was built. In 2014, the first contracts were executed to provide the professional services that were needed for the project. Construction began in 2017, and the project was completed in 2020. Exhibit 3 provides a timeline of key project activities.

EXHIBIT 3. TIMELINE OF KEY GARAGE RENOVATION PROJECT ACTIVITIES



Scope and Methodology

Sjoberg Evashenk Consulting, Inc., was engaged by the City Services Auditor of the City's Office of the Controller to conduct a performance audit of the processes used for the capital improvement (renovation) project at the Portsmouth Square Parking Garage. Specifically, the audit's objectives were to:

1. Determine how effective and economical the PPPC Board's processes were for the recent capital improvements at the garage.
2. Determine whether the PPPC Board's reporting on the progress of the capital project to the City complied with reporting requirements.

To meet the audit's objectives, we performed the following steps:

- Conducted a series of interviews with current and former PPPC board and staff, San Francisco Department of Recreation & Park (Rec & Park) and San Francisco Municipal Transportation Agency (MTA) management and staff, and other project participants involved with the renovation project to understand roles, responsibilities, and processes related to the specific audit areas identified by the CSA:
    - Project management, scope, schedule, and budget
    - Solicitation, evaluation, and award of project contracts
    - Funding, invoicing, and payments
    - Progress reporting
    - Contract compliance and best practices
- Reviewed various requirements, contracts and agreements to understand roles, responsibilities, and processes related to items, including the San Francisco Charter and San Francisco Administrative Code (Administrative Code); garage lease; loan agreement; and contractor and professional services agreements (construction manager, architect, general contractor, and other contractor and service providers).
- Gathered and reviewed pertinent documents, including:
    - Lease
    - Loan documents
    - Renovation study and update
    - Contractor and consultant agreements
    - Solicitation documents
    - Project schedules and cost estimates
    - Bid plans and specifications
    - Payment requests and support
    - Capital improvement expense requisitions
    - City building permits and independent inspection reports

- Identified the roles and responsibilities related to the project management function of the renovation project on City-owned property, including the Board, MTA, Rec & Park, construction manager, and architect. Once identified, assessed if each role was clearly identified and assigned and appropriately fulfilled; understand reasons responsibilities were not carried out.
- Assessed the project/construction management processes employed, including:
  - Developing and approving plans and specifications, scope of work, and the project budget.
  - Performing onsite inspections, by both the project architect and private inspection firms, to assess work-in-progress to compare against contract schedule of values, identify and document work delays, and identify and resolve potential issues, etc.
  - Holding/documenting periodic (weekly) project development team meetings with Board representatives (Renovation Committee), architect, contractors to discuss project progress, construction challenges, potential change orders and planned solutions, and follow-up activities on outstanding or unresolved issues.
  - Approving project work and approving payment applications. For change orders, understand how change orders were handled, including identifying the reasons, negotiations, pricing, and approvals.
- Evaluated changes in project management structure and key project personnel to assess any corresponding impacts affecting the project's success such as rework required.
- Created a listing of items in the original project scope and determine how the project scope changed over time until the project concluded in April 2020. Identified items/tasks that were added and subtracted from the project scope and inquired about value engineering processes and approvals for the adjustments.
- Reviewed inspection processes to determine the quality of work and adherence to plans and specifications, project meeting minutes to identify the types and frequency of any issues noted, and complaints submitted to the Board regarding work quality. Also, reviewed required City permits submitted to the City's Department of Building Inspection to ensure City codes were abided by.
- Determined how the project's baseline master schedule was established and how schedule changes were tracked and communicated to management (the Board). Identified the original project schedule and determine how the project veered away from the original estimated key milestone dates, such as those for plan/design approvals, bid package/specification approvals, bidding and contracting, and construction start and completion. Compared the original schedule to the final dates and identified causes for schedule adjustments/delays and the approvals of the adjustments. During construction, identified whether schedule changes and impacts on milestones were discussed during project meetings as evidenced by meeting minutes.
- Assessed processes employed to develop and approve the project budget and the reasons for budget modifications, such as construction cost escalation, expanded project scope, change orders, design/construction errors, owner change requests, or cost estimation error. Evaluated the approval processes for any budget adjustments.

- Compared project management practices and owner oversight activities against the lease and industry best practices.
- Reviewed the lease and Administrative Code to identify requirements related to solicitation, evaluation, and award of project contracts.
- Created a universe of contracts and agreements associated with the renovation project.
- For each contractor and professional consultant agreement, determined whether a competitive solicitation process was employed.
- Reviewed competitive solicitation process employed to develop and advertise the request for proposal (RFP), request for qualifications (RFQ), request for bid (RFB), etc., and if the solicitation documents were reviewed and approved by the City.
- Determined if key evaluative processes were followed appropriately, such as bids publicly opened (where applicable, such as low bid procurements), responsiveness determined, evaluation criteria used, interview processes conducted, and selection protocols adhered.
- Assessed the Board's justification for not employing a competitive process and evaluated the processes used to select and approve any sole source contracts for reasonableness and appropriateness.
- Assessed the processes employed to recommend selections to the Board for approval and the Board's processes to accept and approve the recommendations. Determined if any recommendations were rejected and the reasons. Determined if the City was involved in the recommendation/approval process.
- Identified the processes used and individuals involved, to draft, review, and approve the contracts to ensure all needed provisions, such as Administrative Code Chapter 6, were included in the agreements to protect the interest of the Board and the City.
- Identified project funding/financing, invoicing, and payment processes that are required by the lease, Administrative Code, contracts and agreements, etc.
- Captured and assessed the universe of project costs, including the sources of potential project funding, such as loan proceeds, garage operations income, capital improvement monies, PPPC reserves, etc. Reviewed project costs paid with loan proceeds as well as perform a high-level review of the Board's operational bank accounts to identify other potential project-related costs. Compared these costs to the initial project budget that was established by independent cost estimates, loan documents, and contract documents.
- Identified the types of project-related costs paid-to-date, such as soft costs, construction costs, loan costs, attorney's fees, etc., as well as future potential project-related costs outstanding, such as those arising from litigation.
- Identified the universe of change orders and the percentage the change orders represent to total project costs. Determine whether final change orders are classified into standard categories such as unforeseen condition, (design) error/omission, or (owner) change in scope and identify the most

common categories. Assessed whether change order percentages align with industry leading practice.

- For a sample of payment requests and other project cost payments:
  - Identified the process used and individuals involved with preparing the documentation for submission and processes to verify the work being invoiced was complete and acceptable. Identify the payment approval processes and requirements. Determined if these processes complied with roles and responsibilities, requirements reflected in contracts and agreements, and standard accepted construction project practices.
  - Identified the contract type/reimbursement method and verify billings were in accordance with contract terms.
  - Identified the contract type/reimbursement method and verified billings were accurate, for reasonable costs, in accordance with contract terms, and supported by underlying receipts, payroll documents, etc.
- Assessed the adequacy of the methods used to keep the Board/Renovation Committee, Rec & Park, and MTA up-to-date on project progress. Also, consider the timing, frequency, sufficiency, and distribution of project information.

Sjoberg Evashenk Consulting conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

Chapter 1: PPPC Board Ineffectively Managed Project, Causing It to Be $4.5 Million Overbudget, Behind Schedule, and Incomplete

In 2011, the Board of Supervisors of the City and County of San Francisco approved a 40-year lease between the Portsmouth Plaza Parking Corporation (PPPC) Board and the San Francisco Recreation and Park Department (Rec & Park) that included specific provisions related to renovating the Portsmouth Square parking garage facility. The PPPC Board, a nonprofit corporation made up of unpaid volunteers with little experience constructing publicly funded capital projects, was misguided and ineffective in its attempts to manage the renovation project. Although the PPPC Board's Renovation Committee employed a few good practices, such as conducting regular project meetings and hiring professional cost estimators to set the project budget, it struggled to use appropriate procurement processes, contain project costs, maintain project scope, adhere to schedules, manage multiple consultants and contractors, oversee project activities and work progress, and keep critical project documentation.

The following key findings are discussed in Chapter 1:

- Project Was Inadequately Managed and Work Progress Was Not Appropriately Monitored or Verified
- Project Lacked an Adequate Competitive Solicitation and Contracting Processes Were Insufficient to Ensure Certain Basic Provisions Were Included
- Project Experienced Significant Cost Overruns and Scope Reductions
- Project Employed Insufficient Controls Meant to Ensure Contractors Complied With Contract Payment Provisions
- Project Schedule Faced Numerous Delays Caused by Consultant and Contractor Work Stoppages
- Project Appropriately Involved Work Quality Observations and Inspections
- Project Meetings Were Frequent, but the Level of Information Provided at PPPC Board Meetings Appears Insufficient for Adequate Oversight

Despite the problems discussed in Chapter 1, the garage renovation project appropriately involved site visits by the project architect and engineering subconsultants, and field observation reports identified routine and typical issues that may be encountered in any construction project. In addition to the San Francisco Department of Building Inspection approving the project, the project architect issued a substantial completion memo, which, according to industry standards, means the project was sufficiently complete in accordance with the contract documents and the work could be used for its intended purpose.

Section 1: Project Was Inadequately Managed and Work Progress Was Not Appropriately Monitored or Verified

Although the PPPC Board established a Renovation Committee to handle day-to-day project management activities, project authority was not delegated to the Committee and attempts to manage the garage renovation project were ineffective. Also, the Renovation Committee contracted professional services to help oversee the project; however, these services were problematic as construction management was wrought with turnover, inadequate monitoring, and conflicts of interest. Additionally, the PPPC Board did not require the firm it hired to provide architectural services to verify the appropriateness of construction activities and work prior to the PPPC Board issuing payments.

Section 1 Key Findings:

- PPPC Board Was Misguided in Its Attempts to Assume Project Manager Role
  - ❖ PPPC Board Chose a Project Structure Requiring Technical Expertise and Control That Renovation Committee Could Not Provide
  - ❖ PPPC Board Did Not Formally Delegate Project Authority to Renovation Committee
  - ❖ Renovation Committee Did Not Effectively Manage Project
- Ineffective Construction Management Was Hampered by Inadequate Monitoring and Conflicting Duties
  - ❖ First Construction Manager's Efforts Perceived as Inadequate
  - ❖ Conflicting Duties May Have Negatively Impacted Second and Third Construction Managers' Ability to Independently Monitor Work and Assess Work Progress
- Project Architect Was Not Required to Verify Construction Activities or Work Progress Before Issuing Payments

PPPC Board Was Misguided in Its Attempts to Assume the Project Manager Role

Although the PPPC Board previously managed two small garage projects related to renovating a bathroom and a cashiering booth, it lacked the resources and infrastructure needed to successfully oversee a large construction project, such as capital project policies and procedures, project management tools, and dedicated staffing. The PPPC Board consists of unpaid volunteer members with outside full-time employment and only a small number of employees with responsibilities solely focused on garage operations—such as a corporate manager, parking attendants, and administrative staff—and not on the garage renovation capital project. Without the requisite expertise, the PPPC Board was misguided in its attempts to assume the project manager role. As discussed throughout the report, the PPPC Board struggled to contain project costs, maintain project scope, adhere to schedules, manage multiple consultants and contractors, oversee project activities and work progress, and keep critical project documentation.

The PPPC Board's Renovation Committee was established to function as the project manager, but its ability to fulfill this role was tenuous. The committee members lacked the technical experience, resources, and infrastructure needed to take on such a critical role. Thus, the Renovation Committee failed to sufficiently monitor or manage the project's progress or costs to ensure the project was built as scoped and adhered (or even came close to adhering) to schedules.

PPPC Board Chose a Project Structure Requiring Technical Expertise and Control That Renovation Committee Could Not Provide

Best practices suggest a project charter that clearly outlines the structure, roles, and responsibilities of project team members, including the architect, construction manager, and general contractor. Typically, external professionals fill these roles with responsibilities outlined in contract agreements and project manuals. Project structures often use a general contractor-subcontractor model in which an owner hires a general contractor to implement the project, and the general contractor hires subcontractors to perform many of the specialty trade services through subcontracted scopes of work. Under such a model, the general contractor would oversee the work of the subcontractors to ensure work is completed and staging dependencies are managed among the various subcontractors.

Yet, as reflected in Exhibit 1, the PPPC Board chose to contract separately with the general contractor and directly with individual contractors providing electrical, mechanical/HVAC, and fire suppression services. Under this model, the general contractor did not have any influence to direct, manage, or coordinate the work of the other contractors, further contributing to project difficulties and failures. Although owners hiring specialized trades directly is not uncommon in the industry, it requires more "hands-on" involvement and technical management. However, the Renovation Committee in its assumed role as project manager did not have the requisite expertise or capacity to be heavily involved in day-to-day project activities and effectively manage multiple contractors. The model may have been selected to save on project costs by eliminating general contractor markups, but it also removed a critical layer of project oversight and control, which likely exacerbated project oversight issues and contributed to the significant project cost overruns, as discussed in later in the report.

PPPC Board Did Not Formally Delegate Project Authority to Renovation Committee

The PPPC Board's Renovation Committee assumed the project manager role. The committee generally consisted of three PPPC Board members led by a chairperson with experience as a professional architect. Discussions with several PPPC Board members revealed a consistent perception that authority for all project-related decisions was delegated to the Renovation Committee because the chair had the most relevant professional experience.

However, the PPPC Board did not formally detail the level of authority the Renovation Committee had to make project decisions or what decisions, such as approving project budgets or selecting and hiring contractors and consultants, required a vote of the full Board. As discussed later in the report, only seven PPPC Board motions were voted on (and passed unanimously) that related specifically to the years-long garage renovation project. These motions focused largely on addressing financial aspects of the project, but largely ignored aspects of project management, such as approving the selection of project contractors and consultants, related contracts, or actions to remediate issues related to work quality or project schedule.

Renovation Committee Did Not Effectively Manage Project

On a day-to-day level, project managers are responsible for the overall delivery, from project inception to completion or occupancy. They must manage all aspects of a job from the initial planning, through design, procurement, and construction, and are responsible for the project budget and schedule. The Renovation Committee, acting as project manager, employed a few best project management practices, such as hiring professional cost estimators to set the project budget, overseeing procurement of professional consultants and contractors, approving payment applications, and participating in regular project meetings. However, the Renovation Committee could not demonstrate that other important project management activities were effectively carried out, such as managing the overall project schedule by tracking and reporting on baseline-to-actual milestones and monitoring costs by reviewing and reporting on budget-to-actual costs as evidenced by large project cost overruns, consultant and contractor turnover and disruptions, and schedule delays discussed later in the report.

The Renovation Committee also did a poor job of maintaining complete project management files with sufficient contemporaneous information to allow the detailed reconstruction, review, and analysis of events and actions related to the renovation project. Project documentation maintained by the PPPC Board ranged from project schedules and costs to change orders, punch lists, meeting notes, and other project memorandums and was generally maintained in an unorganized and haphazard manner. Also, the documents often lacked pertinent information needed to understand the relevancy and reliability of the data, such as preparer's name and role on the project, source and purpose of the data, date the information was generated or verified, or if the documents were draft or final versions. In some instances, the Renovation Committee stated it did not maintain some project documents at all; rather, the contracted project architect, construction managers, consultants, and contractors individually maintained project documentation—rendering key documents unavailable for review and evaluation of certain project processes and decisions. Also, original project files not under the care and control of the PPPC Board or Rec & Park could negatively impact the City in the event of project-related litigation or a public records request for transparency and accountability for the project.

It is likely that these key activities were not effectively carried out at least partially due to the PPPC Board's lack of project management infrastructure, systems, and specialized expertise as well as committee members' inability to commit to performing day-to-day project management activities due to their outside full-time employment.

Ineffective Construction Management Was Hampered by Inadequate Monitoring and Conflicting Duties

A project's construction phase can carry significant schedule and budget risks, which if not adequately mitigated, can critically trouble project budgets and result in delays. Close monitoring of construction costs, milestones, and detailed schedules is essential to the successful delivery of a project. Regardless of the budget or magnitude of a construction project, approaches on managing and delivering projects are relatively similar and should generally follow leading practices in the industry. Construction managers are hired to be the "boots on the ground" to oversee the day-to-day operations from pre-construction through project close out punch lists.[3] Typically, a construction manager is an expert in the building trades, such as mechanical, electrical, plumbing, carpentry, and general construction.

For the Portsmouth Garage renovation project, the PPPC Board hired several construction managers at different points in the project to be on site when construction activities were ongoing. Their job was to monitor the work and progress toward completion, notify the project architect and PPPC Board of any deficiencies or defects in the work, and review payment applications to ensure alignment with work progress. These are typical construction manager activities performed in industry. Yet, as described in the sections that follow, these critical activities were not always effectively performed and, combined with the Renovation Committee's ineffective project management, likely contributed to the project budget overruns and schedule delays.

First Construction Manager's Efforts Perceived as Inadequate

The first construction manager hired by the PPPC Board was on the project almost five years, starting in early 2014 and terminating in September 2018, over a year after construction activities began. This duration was far longer than either the second or third construction managers were engaged on the project: the second construction manager/general contractor was on the project approximately six months and the third construction manager approximately four months. During the first construction manager's lengthy tenure on the project, a perception existed among stakeholders that work and progress was not effectively monitored once construction activities began.

Among its many requirements, the PPPC Board's contract with the first construction manager required one or more representatives be present at the project site for an average of 20 hours per week to monitor work being performed and to maintain documentation of its monitoring activities, including keeping a daily log of the work on the site, the number of workers and tasks accomplished, and any problems on site. According to the first construction manager, it maintained an on-site presence as required, monitored the work as it was done, and immediately directed contractors to correct their work (when needed). However, the PPPC Board was unable to provide the required daily logs to demonstrate the nature of the first construction manager's daily monitoring efforts.

We noted a consistent perception among several project stakeholders that the first construction manager did not sufficiently monitor the daily work of the contractors. Project stakeholders provided the following examples as evidence of unsatisfactory monitoring:

- The door of the administration office was framed before necessary corrections were made to the elevation of the floor, which led to a building inspection failure.
- Pay stations were installed at the wrong location in the garage because the layout instructions shown on architectural plans were not followed.
- Lighting was installed improperly.

This view was supported by the February 2018 PPPC Board meeting minutes, which note the construction manager had begun to take "a more proactive role as things are not being done properly." Two months later, the minutes of the April 2018 PPPC Board meeting note that the PPPC Board president indicated there had

[3] A punch list shows items that must be addressed before a project can be completed.

been “multiple issues with contractors, subcontractors and the construction manager,” but no meaningful elaboration is included. Minutes of a PPPC Board executive session also reflect concerns raised by members present regarding the adequacy of the project’s construction management oversight. However, other project stakeholders felt the first construction manager provided adequate day-to-day monitoring of construction activities, including by holding weekly coordination meetings with contractors. As discussed later in the report, the project architect stated that the renovation project only involved work quality issues that are typically encountered and resolved with any construction project.

Another important construction management function involves reviewing and approving contractor billings. Again, we found a pervasive perception from project stakeholders that contractors were paid without the construction manager providing proper oversight or verification that the percentage of work billed was completed. This view was supported by the April 2018 PPPC Board meeting minutes, which note that “50 percent of the budget has been paid out, but have not been able to track if 50 percent of the work has been completed.” Project stakeholders also indicated that the Board struggled in the middle of the construction phase to get contractors to return to the project after they had been paid most of their contract monies, but before all work was complete. As described in more depth later in the report, apart from payment application approvals by the construction manager, the PPPC Board could not demonstrate the status of the work at the time payments were made, so we could not validate this stakeholder perception.

Furthermore, the August 2018 PPPC Board meeting minutes note that the construction manager was tasked with work it did not expect, but the meeting minutes do not specify these tasks, which apparently were outside the scope of the construction manager’s contract. However, it is likely the construction manager was tasked with project management-related activities because the PPPC Board struggled to adequately assume that role, as described previously. The meeting minutes reflect that the Board discussed bringing on an owner’s representative to relieve the construction manager of the additional work.

Ultimately, the first construction management firm was removed from the construction manager role in September 2018. Project stakeholders cited multiple reasons for the termination, ranging from a lack of adequate work monitoring to contentious relationships with garage management.

Conflicting Duties May Have Negatively Impacted Second and Third Construction Managers’ Ability to Independently Monitor Work and Assess Work Progress

As described later in the report, during the time the second and third construction managers were working on the renovation project, each had agreements with the PPPC Board to provide general contractor services in addition to construction manager services. These two roles inherently conflict with one another because a construction manager should not be authorized to review its own work. When acting as the construction manager, the ability of these two firms to exercise independent judgment was compromised. No party should be asked to evaluate the quality and adequacy of its own construction work or to assess or approve its own payment requests.

Project Architect Was Not Required to Verify Construction Activities or Work Progress Before Issuing Payments

On capital construction projects, payment applications are submitted to the project architect for independent review of contractor work. The review's objectives are to verify that the work meets the specifications in the construction documents and to determine if the progress agrees with the contractor's estimation of the percentage complete that is reflected in the schedule of values and the construction manager's approval of the estimate. However, the PPPC Board's agreement with the project architect had important standard provisions, which were present in the contract template, intentionally deleted. These provisions require the project architect to perform activities related to reviewing and certifying applications for payment. The omission of these provisions was inconsistent with the agreements with the construction managers, which required that contractor payment applications be submitted to the project architect for review. Removing this provision from the project architect's contract was particularly problematic given the conflict-of-interest issue the Board created by allowing the second and third construction managers to also act as general contractors. Due to this issue, the project architect's independent verification of the work would have been critical. Not surprisingly, as described earlier, many of the project stakeholders we interviewed perceived that payments were made to contractors without proper oversight or verification that the percentage of work was completed as indicated in the schedule of values.

Due to ongoing concerns regarding inadequate construction management oversight, improper payments, and incomplete work, the consultant hired to assist the Renovation Committee asked the project architect to review certain payment applications to understand the circumstances surrounding the completion of the work. The reviews occurred between August and October 2019, after payments had been made to the contractors. In one of the reviews, which involved all five payment applications totaling about $1.3 million submitted by the second construction manager/general contractor, the project architect identified about $586,800 in potential overbillings. The overbillings occurred because the contractor invoiced and was paid for work that:

- had been removed from the project's scope;
- was completed by another contractor;
- did not align with the progress reflected in the schedule of value; or
- had not been completed at all.

It is unclear if any actions were taken by the PPPC Board given the results of the project architect's reviews. The other two reviews conducted by the project architect involved payment applications submitted by the third general contractor—those reviews did not note any potential overbilling issues and only recommended the PPPC Board to not release retention until punch list items were cleared and all work verified as completed.

Section 2. Project Lacked an Adequate Competitive Solicitation and Contracting Processes Were Insufficient to Ensure Certain Basic Provisions Were Included

Although the PPPC Board used a few good practices in its efforts to solicit consultants and contractors for the garage renovation project, the procurement processes generally lacked evidence of adequate competitive selection processes or, alternatively, sole source justifications. Also, the PPPC Board and the City did not work together to select the project consultants and contractors, as required by the lease. Because project contracts did not always include all required elements, contract amendments had to be executed. Some contracts were missing standard provisions intended to protect the project owner's interests.

Section 2 Key Findings:

- Project Generally Lacked Adequate and Transparent Competitive Solicitation Processes and Required City Involvement
  - ❖ Initial Construction Management Services Were Secured After Appropriate Selection Protocol Was Circumvented
  - ❖ Evidence Suggests Competitive Processes Were Used to Procure Architectural Services, but Justification for Selection Was Not Documented and Required City Involvement Was Absent
  - ❖ Little Evidence of Processes Used to Evaluate Construction Bids; Required City Involvement Was Absent
  - ❖ Hiring of Subsequent Construction Managers, Consultants, and General Contractors Lacked Competitive Processes or Justification for Sole Source Procurement
- Contracts Covered Standard Project Activities, but Did Not Always Include Required Elements or Certain Basic Provisions Meant to Protect Project Owner's Interests
- Certain Standard Contract Provisions Meant to Protect Project Owner's Interests Were Missing, and Other Elements Specifically Allowed Conflicts of Interest to Exist

Project Generally Lacked Adequate or Transparent Competitive Solicitation Processes and Required City Involvement

Owners of capital construction projects often outsource design services to architecture or engineering firms, while general contractors almost always construct the structure or improvement. Depending on its in-house staffing, knowledge of capital construction, and other factors, an owner may opt to engage a construction management firm to oversee the work of general contractors and serve as the owner's "boots on the ground," ensuring the project is built as intended and in accordance with design plans and specifications.

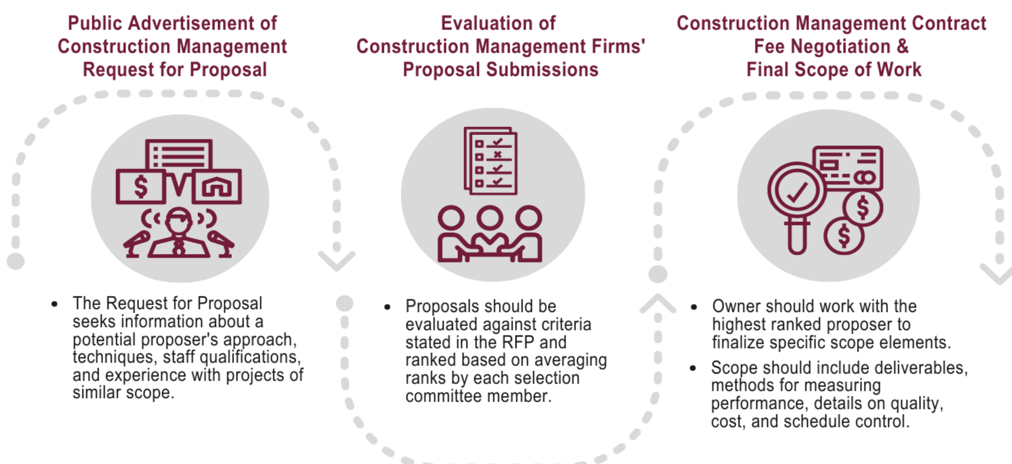
When outsourcing work, City departments must procure contracts for services through competitive solicitation processes. The City has specific requirements for evaluating bids and awarding contracts. As described earlier, the PPPC Board oversees a nonprofit corporation of which the City is legally the sole shareholder. The lease does not explicitly require the Board to abide by City contracting requirements but, because the City is the PPPC's sole shareholder, the Board should be expected to follow City contracting and bidding requirements. Thus, the Board should have used acceptable competitive solicitation processes to safeguard the integrity of the bid evaluation processes and enhance transparency and credibility but did not.

Although the PPPC Board adhered to some requirements in a few solicitation efforts, it did not maintain sufficient evidence that the processes employed were sufficient. Also, it appears that the Renovation Committee's choice of a firm to receive one contract was overridden by the PPPC Board president at the time.

Initial Construction Management Services Were Secured After Appropriate Selection Protocol Was Circumvented

Competition is an effective way to reduce project costs, improve performance, and avoid preferential treatment. Best practices suggest that public and private owners evaluate firms providing construction management services using a quality-based selection process. Public owners are generally required to follow a transparent, public process to ensure the most competent and competitive construction manager is hired for the project or program, as shown in Exhibit 4.

EXHIBIT 4. CONSTRUCTION MANAGER PROCUREMENT LEADING PRACTICE SUMMARY



Source: Auditor-generated based on industry-leading practice from The Construction Management Association of America (CMAA), *An Owner's Guide to Construction and Program Management*, 2011.

Consistent with the best practice process reflected in Exhibit 3, the Administrative Code, Chapter 21, requires that any City contract for professional services be procured through a competitive solicitation that includes:

- Advertising the solicitation
- Establishing fair evaluation criteria
- Conducting transparent selection processes

We found the PPPC Board did use some competitive selection processes to select the first construction management firm, such as issuing a request for proposal (RFP) and scoring proposals and interviews. However, the Board provided documentation insufficient to show that it adhered to other Administrative Code requirements, including that the RFP was advertised or that the Board solicited proposals.

Specifically, in 2013 the Renovation Committee developed and released an RFP for construction management services that required proposers to provide the following:

Requirements in 2013 RFP for Construction Management Services
• Experience providing project management/construction management services for a project sponsor of at least one private or public structure having a cost of at least $5 million.
• Name or address of previous projects proposer has performed and associated project tasks.
• List of references and contact information.
• Proposed project approach, schedule, and cost estimate.

Although it is unclear whether (or how) the PPPC advertised the RFP, Renovation Committee meeting minutes indicate that two firms submitted proposals and that both firms were invited to interview with an evaluation panel consisting of the four members of the Renovation Committee, the corporate manager, and the PPPC Board president.

Although the RFP did not include criteria to establish or guide the evaluation process, the evaluation panel appeared to use a systematic approach to score each firm's proposal and interview. Each evaluator recommended the selection of one of the two firms and provided individual comments to explain why. Documentation we reviewed indicates that the results of a voting procedure used by the panel for the ultimate selection of the project's first construction management firm was overridden by the then-president of the PPPC Board. It appears the president preferred the other firm, with which he had experience on another construction project. Thus, by dismissing the judgment of the evaluation panel, the PPPC Board negated the competitive solicitation efforts that had been undertaken. Also, we found no evidence of City involvement in the selection process although, according to Rec & Park, the City heavily reviewed the selection of the first construction manager.

Evidence Suggests Competitive Processes Were Used to Procure Architectural Services, but Justification for Selection Was Not Documented and Required City Involvement Was Absent

Although the PPPC Board was able to provide some documentation, such as advertisements and scoring sheets, related to the solicitation processes undertaken for the procurement of architectural services, it did not provide complete or sufficient documentation demonstrating fair and open competition or compliance with requirements, such as any evaluative criteria or selection processes used. Further, although the lease, Section 8.4, requires joint selection of architectural and engineering contractors, there was no evidence of City involvement in the process.

As with the 2013 RFP process for construction management services, in 2014 the PPPC Board again set out to conduct a competitive procurement when the Renovation Committee and construction manager developed and released a request for qualifications (RFQ) for architectural and engineering services and required proposers to provide the following:

Requirements in 2014 RFQ for Architectural and Engineering Services
• Information about three relevant recent projects that best showcase the firm's abilities to perform quality services.
• Statement demonstrating ability to accomplish the scope of services in a comprehensive and thorough manner in a short timeframe, including a statement regarding current availability.
• Approach to quality control/assurance procedures, including coordination of design disciplines.
• Experience with construction cost reduction measures.
• Approach to modernization projects that are occupied during construction.
• Fee Schedule.

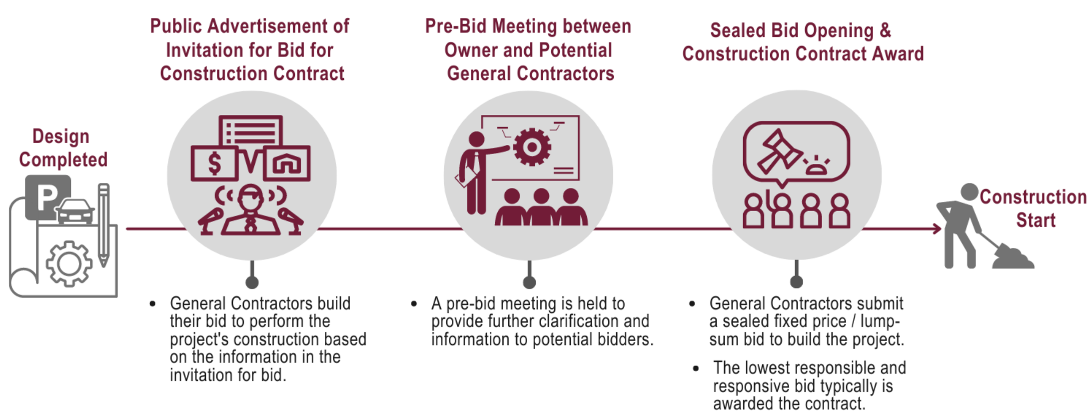
After a pre-proposal meeting and site walk, ten firms submitted statements of qualifications. Although the RFQ did not include criteria to establish or guide the evaluation process, documentation we reviewed suggests that an employee of the construction manager scored the ten submittals based on 12 factors worth a total of 100 possible points. The four firms with the highest scores were invited to interview with a panel composed of PPPC Board members and employees of the construction management firm. Although the panel reportedly deliberated on the interview results via a "roundtable discussion," no documentation demonstrates who participated in the interview process, how the interview responses were evaluated or scored, or why the project architect that was awarded the contract was selected.

Little Evidence of Processes Used to Evaluate Construction Bids; Required City Involvement Was Absent

Many public construction projects are delivered using a "design-bid-build" or "low-bid" method in which design plans typically must be complete before the project is advertised for construction and the construction contract is awarded to the contractor that provides the lowest lump-sum, all-inclusive bid.

Exhibit 5 reflects the typical design-bid-build competitive procurement process for construction services.

EXHIBIT 5. TYPICAL DESIGN-BID-BUILD CONSTRUCTION CONTRACT PROCUREMENT



Source: Auditor-Generated based on Industry Leading Practice from The Construction Management Association of America (CMAA), *An Owner's Guide to Project Delivery Methods*, 2012.

Consistent with the approach reflected in Exhibit 5, the Administrative Code, Chapter 6, requires that contracts for City construction projects exceeding the minimum threshold amount (now $600,000) be awarded to responsible bidders who submit the lowest responsive bid. The PPPC Board's $13 million renovation project far exceeded this minimum threshold. As with its earlier RFP and RFQ processes, the PPPC Board initiated a competitive procurement process when the Renovation Committee, construction manager, and project architect developed and released an invitation for bid (IFB) for construction services, which included six bid packages.

Although in 2017 the PPPC Board used some competitive processes to hire the project's contactors, the Board could not provide sufficient documentation of the entire process it used for construction services. The Board provided a bid summary document comparing three bid packages against an owner's estimate. However, the Board provided no evidence to show how many bids were submitted for each bid package, how the bids were opened and evaluated, who prepared the comparative analysis or how it was developed, or any other considerations. Ultimately, four contractors were selected for four of the six bid packages in the IFB.

According to project stakeholders, there was a lack of interest in bidding on the project because local contractors were busy at the time and the PPPC Board felt it had extremely limited choices in selecting contractors. We could not verify whether or not this perception by the Board was accurate, but we noted that the first general contractor bid was 29 percent lower than the owner's estimate and the HVAC contractor's bid was 20 percent higher. Despite this, the PPPC Board could not demonstrate that any effort was made to reconcile the bids with the owner's estimates, as best practices recommend. According to the first construction manager, the construction services bidders were selected without any negotiations.

We also noted that the lease, Section 8.4, requires that the City and PPPC Board jointly select the project's contractors. However, we found no evidence of City involvement in the process or of the Board notifying Rec & Park that selection activities for contractors were underway so that Rec & Park could participate, as the lease required.

Hiring of Subsequent Construction Managers, Consultants, and General Contractors Lacked Competitive Processes or Justification for Sole Source Procurement

After the first construction manager and first general contractor separately left the project in 2018, the PPPC Board engaged two firms, at different times, to act as both construction manager and general contractor. This was done via sole source procurements; no competitive process was used. The PPPC Board also did not use any competitive processes when it hired a consultant to serve as the owner's representative after the second construction manager/general contractor left the project or when another consultant was hired to assist the Renovation Committee during the project's final months. According to multiple project stakeholders, these firms and consultants were recommended by PPPC Board members and other project stakeholders and were engaged without competition because of the urgency to complete the project. At that point in 2018, the loan drawdown deadline was approaching as was the project completion deadline in the lease.

The Administrative Code allows sole source awards for construction contracts under certain circumstances, including when services are only available from one source or when services are needed on an expedited basis to use state or federal funding that may otherwise expire. However, sole source awards cannot be justified based on a lack of advance planning. For a sole source procurement to be allowable, a written justification must be documented explaining how the services were required to meet needs, the proposed contractor's unique qualifications to perform the services, and a statement as to why competitive solicitation is impractical.

City rules narrowly limit sole source procurements for professional services. For example, a common circumstance in which a sole source procurement is allowed is when a vendor has proprietary rights to software or something akin to software. Although the PPPC Board may have had sufficient justification for using a sole source method for some of the services it procured for the project, the documentation required for a City procurement to justify not using appropriate competitive processes was not prepared or maintained. As stated earlier, despite there not being explicit requirements for the PPPC Board to abide by City contracting requirements, because the City is the Board's sole shareholder, it follows that City requirements should be implemented for any Board procurements and that it is the Board's responsibility to follow these rules.

Again, we found no evidence of City involvement in the process or of the Board notifying Rec & Park that selection activities for contractors were underway so that Rec & Park could participate, as the lease required.

Contracts Covered Standard Project Activities, but Did Not Always Include Required Elements or Certain Basic Provisions Meant to Protect Project Owner's Interests

Once the solicitation process is complete and contractors and consultants have been selected, formal agreements are executed to help ensure the success of a construction project. Not only do properly executed agreements protect the project owner's interests and legally bind all contracting parties to the terms and conditions mutually agreed upon, they also establish the framework, detailed scopes of work, and schedules, and set expectations for project deliverables.

During the renovation project, several agreements were executed to help the PPPC Board deliver the project. These agreements covered design services, construction management, and the construction itself. The key project contracts are reflected in Exhibit 6.

EXHIBIT 6. KEY RENOVATION PROJECT CONTRACTS, 2014 TO 2019

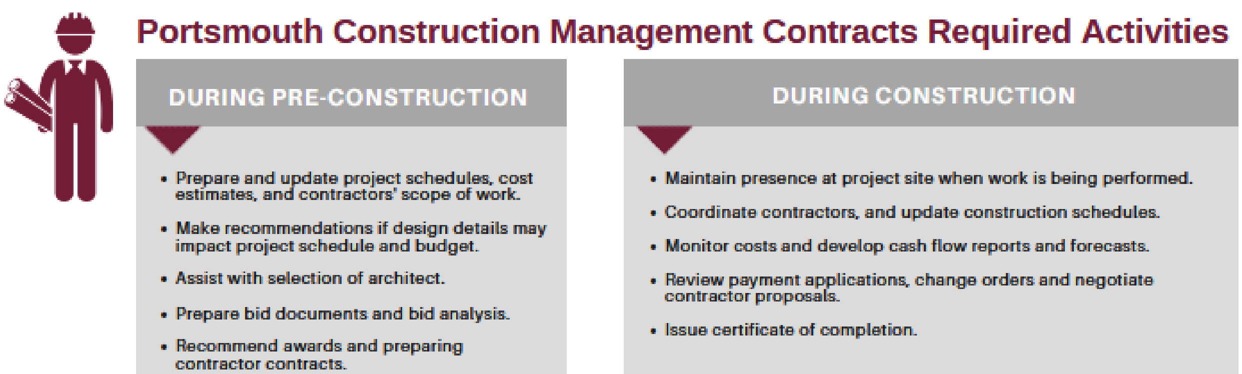
Service		Firm	Contract Execution	Final Contract Amounts
1	Construction Manager #1	Josehart Construction Management, Inc.	February 2014	$610,066
2	Project Architect	Beth Morris Architecture	November 2014	$619,829
3	General Contractor #1	Alpha Bay Builders, Inc.	April 2017	$2,293,772
4	Electrical Contractor	Edward W. Scott Electric Co. Inc.	March 2017	$1,823,253
5	Mechanical/HVAC Contractor	Marina Mechanical	March 2017	$843,198
6	Fire Protection Contractor	Value Fire Protection, Inc	April 2017	$781,312
7	Construction Manager #2	Arana Group, Inc.	September 2018	$500,000
8	General Contractor #2	Arana Group, Inc.	September 2018	$2,321,200
9	Construction Manager #3/ General Contractor #3	LMNOP Design, Inc.	June 2019	$1,498,228
10	Owner's Representative	KML Associate Committee	May 2019	$278,422
11	Renovation Committee Assistant	Y-Learning & Consulting	December 2019	$91,000

The Administrative Code requires City contracts, including contracts executed by the Board, to include specific provisions. We found that most of the Board's agreements appear to be based on standard industry contracting templates and are signed by authorized PPPC signatories, such as the PPPC president or vice president. However, the City's involvement, if any, in reviewing the contracts was sometimes unclear, and some contracts lack required provisions, including those meant to protect the interests of the City as well as those of Rec & Park as the project owner.

Professional Services Contracts Required Amendments to Bring Contracts Into Compliance With City Requirements

As reflected in Exhibit 6, the PPPC Board executed several professional services contracts with three construction managers and a project architect. According to Rec & Park, the PPPC Board did not discuss or notify the City of the contracts. However, because the City did not review the agreements before they were executed, modifications (through contract amendments) were required to comply with City requirements more fully.

Specifically, in 2013, the PPPC Board executed a professional services contract for construction management using standard industry documents for scopes of work typical for a construction project. Requirements included the following:



Source: Auditor-compiled from agreements between PPPC Board and project's construction management firms.

According to the October 2014 PPPC Board meeting minutes, Rec & Park asked to review the Board's contract with the first construction management firm, which had been executed months earlier, in February 2014. The circumstances that prompted Rec & Park's request are unclear. However, in March 2015, nearly six months after the first construction management contract was executed, the City Attorney's Office provided Rec & Park with recommended changes to the agreement, including that it:

- Formally state that the construction manager's services were to be provided subject to the terms and conditions in the lease.
- Incorporate missing City requirements (in the Administrative Code, Chapter 21) related to insurance and indemnification.

Although this contract was amended as the City Attorney recommended, these changes were not included in the Board's subsequent construction management contracts, and there is no evidence that the City reviewed the Board's contracts with the second and third construction managers before or after execution to ensure all required provisions were included.

Separately, in 2014, the PPPC Board executed a professional services contract for architectural work based on a standard industry agreement (contract template) for scopes of work typical for a construction project. Requirements for the architect in this contract include the following:

Portsmouth Architect Contract Required Activities

DURING PRE-CONSTRUCTION	DURING CONSTRUCTION
• Prepare schematic design, design development, and construction documents. • Assist in the competitive bidding process. • Confirm responsiveness of bids or proposals.	• Visit project site and conduct work site inspections. • Report on deviations from contract documents and schedule, and defects. • Review and respond to requests for information, issue supplemental drawings and specifications. • Issue certificates of substantial completion and final certificate for payment. • Verify accuracy and completeness of list of work to be completed or corrected.

Source: Auditor-compiled from agreement between PPPC Board and project architect.

As with the first construction management contract, the City Attorney's Office provided Rec & Park with recommended changes to the project architect agreement only *after* it was executed. In this case, the recommended changes were communicated to Rec & Park four months after the contract had been executed, in November 2014. The City Attorney's Office requested the same changes that had been made via the contract amendment with the first construction manager plus other changes, including that the contract:

- State that the City is an express third-party beneficiary of the agreement with the right to enforce any contractual rights assigned to PPPC.
- Require the City's approval related to design and construction documents, changes in work, project completion, and additional services.
- State that the contractor accepts that the City does not consent to arbitration.

In both instances, the contract amendments were signed well after the contracts were executed. Had the City reviewed either agreement before it was executed, these amendments should have been unneeded, which would have saved the City staff time and decreased the risk to the City that existed while the unamended contracts were in force.

The City Provided PPPC Board With Required Provisions for Construction Contracts Before Execution, but Some Requirements Were Not Incorporated

In 2017, the PPPC Board executed several construction contracts that appear to be based on standard industry contract templates for scopes of work typical for a construction project. The requirements for the general contractors in the agreements include the following:

Portsmouth General Contractors' Required Activities

GENERAL CONTRACTOR

- Be responsible for acts and ommissions of employees and subcontractors.
- Pay each subcontractor timely.
- Prepare and submit comprehensive list of items completed.
- Give timely notice of tests and inspections.

Source: Auditor-compiled from agreements noted in Exhibit 3.

Unlike the post-facto City Attorney's Office review and resulting amendments made to the project's professional services contracts, the City provided the PPPC Board with written guidance regarding required provisions in 2014, several years before the execution of the construction contracts. Despite this, the Board's construction contracts did not include all required provisions. Although the City can be commended for providing written contract guidance to the Board years in advance, it is unclear whether the City reviewed the final agreements to ensure all City requirements were included before the construction contracts were executed years later.

Specifically, in November 2014, Rec & Park provided the PPPC Board with guidance prepared by the City Attorney's Office regarding specific contract terms and conditions to be included in the construction contract documents. The guidance was to ensure construction contracts included certain minimum terms and conditions required by the City's Public Works Contracting Policies and Procedures, as detailed in Chapter 6 of the Administrative Code, such as:

Chapter 6 Key Minimum Terms and Conditions	
• Bonds and insurance	• Final payment
• Indemnification	• Termination
• Prevailing wages	• Claims
• Local hiring requirements	• Clean construction
• Liquidated damages	

The guidance also required the agreements to incorporate provisions in other sections of the Administrative Code, including those related to Local Business Enterprises, and provisions of the Building Inspection Code, Environment Code, and Public Works Code, as well as requirements related to complying with audit requests, field engineering procedures, and specified formatting for operations and data maintenance.

To comply with the guidance provided by the City in 2014, the construction contracts between the PPPC Board and several contractors executed in the spring of 2017 required adherence to the "Renovation Project Manual," which aligned with much of the guidance provided by the City and the requirements of the Administrative Code. However, we found some of the City's requirements were not reflected in either the contract agreements or the Project Manual, including those related to claims for additional payments, installation floaters, and bailee's insurance, a type of insurance that protects against damage, destruction, or loss of property while in one's possession. We also noted that the City's prompt contractor payment to subcontractors was not reflected in the contract with the third general contractor. Rather, the language merely states that subcontractors must be paid within the same period of time in which prime contractors are paid.

Lastly, the contracts signed in 2018 and 2019 by two subsequent general contractors lack many of the same provisions as the earlier contracts with the other contractors. However, because the later contracts appear to be based on a different industry standard contract template, they include additional terms and details not found in the earlier contracts, including clauses addressing:

- Required elements for change orders
- Evidence of financial arrangements
- Award of subcontracts
- Submittal of contractor's schedule
- Safety precautions

As with the other contracts, it is unclear if the City reviewed either of these general contractor agreements before they were executed. According to Rec & Park, the contracts were not provided for the department to review prior to execution.

Certain Standard Contract Provisions Meant to Protect the Project Owner's Interests Were Missing, and Other Elements Specifically Allowed Conflicts of Interest to Exist

Although the PPPC Board's agreements with the professional consultants were generally based on standard industry contract templates for construction projects, several of the agreements with professional consultants did not fully protect the City's interests.

The Second and Third Construction Management Contracts Gave Construction Mangers Conflicting Roles

The Board allowed the second construction management firm to evaluate the adequacy of its own construction work and approve its own payment requests. In fact, possibly at the firm's behest, language was added to its contract acknowledging that the two roles the firm was hired to perform conflicted and that this conflict was acceptable:

> "Owner understands that [Firm Name]'s two roles may possibly create the appearance of conflict, but Owner agrees to this contracting arrangement with full knowledge of this possibility…"

Despite this glaring conflict, the PPPC Board openly acknowledged and allowed the conflict to exist by entering into the contract. (The conflicting roles of the second construction management firm, which constitute a lack of the expected segregation of duties, are discussed in more detail later in the report.) Also, although the agreement with the third construction management firm does not include language acknowledging the conflicting roles, the Board's contract with that firm also includes both construction management and construction services, thereby allowing the same conflict to exist. According to project stakeholders, the PPPC Board accepted these arrangements because it was desperate to complete the project and felt it had no other viable option. It is unclear whether Rec & Park knew the contracts gave the firms conflicting roles.

The Project Architect Contract Lacks Critical Provisions to Ensure Construction Progress Before Payment

The PPPC Board intentionally deleted from the project architect agreement standard provisions that require the architect to participate in selection interviews and negotiations with contractors. Also, despite the fact that the Board's agreements with the first two construction managers require that contractor payment applications be submitted to the project architect for review, the agreement with the architect lacks the standard provisions requiring the architect to perform critical activities related to reviewing and certifying applications for payment. As discussed later in the report, eliminating this provision removes an independent check on the progress of construction activities before payment. It is unclear why these provisions were eliminated from the project architect's agreement and why Rec & Park did not require these basic elements to be included along with the other provisions missing from the contract that prompted the contract amendment, as discussed earlier.

The Contracts With an Owner's Representative and Assistant to the Renovation Committee Were Inadequate

After the second construction management firm stopped all work on the project in March 2019, the PPPC Board contracted with another consultant to serve as its owner's representative, requiring it to manage all of the remaining consultants and contractors on the project and review progress payments. Similarly, after the owner's representative left the project in December 2019, the Board contracted with another consultant to assist the Renovation Committee and help the project pass inspections conducted by the San Francisco Department of Building Inspection. The agreements with these two consultants—short documents with broad provisions related to managing professional consultants and contractors—lack some basic provisions. For example, neither requires the consultant to submit evidence that it performed its work as requested.

Neither the Construction Management, Project Architect, Nor Additional Professional Services Contracts Include Audit Provisions

The Board failed to include an audit clause in many of its contracts. In contrast, the project manual, which the general and specialty prime contractors were required to abide by, includes a standard audit and inspection of records clause. This provision gives the project owner the right to audit and examine records and requires that the relevant records be maintained for three years after final payment. An audit clause protects the owner by enabling it or its agent to access records and independently verify the costs incurred and payments made. Such a clause should be included in all contracts unless there is a compelling reason to omit it.

Rec & Park Did Not Sign Any Professional Services or Construction Contracts for the Project

Although the City is the PPPC's sole shareholder, no City representative signed any of the professional services or construction contracts for the renovation project. Rather, to represent the project owner, most of the contracts were signed by a single PPPC Board member, either a former member of the PPPC Board who served as its president from 2014 to 2018 or the Renovation Committee's vice president or chair, as permitted by the PPPC's bylaws.

Section 3. Project Experienced Significant Cost Overruns and Scope Reductions

The PPPC Board appeared to follow some best practices by hiring design architects and professional cost estimators that established the project budget based on plans and specifications. However, ineffective oversight and the lack of traditional project management practices resulted in a $4.5 million (52 percent) cost overrun that led to the elimination of more than $1 million worth of planned project features.

Section 3 Key Findings:

- PPPC Board Used Professional Firms to Develop Cost Estimates and Budget in Accordance With Leading Practices
- Project Expenses Significantly Exceeded Budget, Resulting in Scope Reductions
- General Contractor Expenses Responsible for More than $2 Million of Renovation Project Cost Overrun
  - ❖ First General Contractor Underbid Scope of Work and Asserted Some Work Was Mostly Complete, Although Additional Effort Was Required by Subsequent Contractors to Complete It
  - ❖ Second General Contractor Potentially Overbilled for Some Work
  - ❖ PPPC Board's Transition Between Multiple General Contractors Occurred Without Proper Comparative Data Required to Contain Construction Costs, Leading to Inefficiencies
  - ❖ Change Orders Increased Construction Costs, but Generally Appeared to Be Within a Reasonable Range of Contracted Amounts
- $1 Million in Renovation Project Cost Overrun Attributed to Professional Consultants
  - ❖ First Construction Manager Was Paid 22 Percent More Than Budgeted
  - ❖ Hiring Subsequent Construction Managers Further Increased Project Costs
  - ❖ Architect Services Cost 43 Percent More Than Budgeted
- Unbudgeted Items Increased Project Expenses by an Additional $1.6 Million
- Due to Cost Overruns, More Than $1 Million of Planned Construction Work Was Not Completed

PPPC Board Used Professional Firms to Develop Cost Estimates and Budget in Accordance With Leading Practices

It appears that the PPPC Board put in significant effort and employed typical capital project practices to establish a reasonable cost estimate to renovate the Portsmouth Square Garage using design architects and professional cost estimators over time to build and refine the project budget over time. As is typical with capital projects, project costs evolved over time as the specific plans moved from conceptual design to final construction documents ready for bid to eligible general contractors. Since the project timeline spanned more than 15 years from the conceptual phase through construction, costs were updated along the way to reflect changing market prices, new building requirements, and scope changes to reduce project costs.

2002. In 2002, the PPPC Board hired an external architectural and engineering firm to conduct a comprehensive study and initial cost analysis—the engineering firm selected also prepared structural drawings and specifications for the garage when it was originally constructed in 1961. At that time, the 2002 cost estimate based on conceptual plans projected that $4.8 million would be required for construction, including the following key scope items:

Project Scope Items	
• Emergency Generator Installation	• Structural Crack Repairs
• Central Entry and Spine Revisions	• Floor Drainage Improvements
• Stairs Upgrades	• ADA Upgrades
• HVAC Upgrades and Revisions	

2012. A decade later in 2012, the PPPC Board hired the same architectural and engineering firm involved with the 2002 renovation study to update its construction cost estimates. The 2012 cost update found that some of the initial 2002 scope items were no longer applicable as some work had since been completed, costs of work had escalated over the ten-year span, and additional renovation building requirements had to be factored into the construction cost estimates, such as upgrades to the elevators and fire alarm system and installing new pay stations. The 2012 updated cost estimate more than doubled from the 2002 conceptual budget, anticipating $10.9 million, not $4.8 million, would be required for construction.

2013. The next year, in early 2013, the PPPC Board reduced the 2012 construction cost estimate by $3.3 million—from $10.9 million to $7.6 million—largely by removing work from the project scope. Specifically, the PPPC Board eliminated $1 million of work related to epoxy flooring, $600,000 in upgrades to the elevators, and $400,000 of fire alarm upgrades (by using an existing panel instead of purchasing a new one). The remaining cost reductions related to changes in assumptions, including cost savings in markup charges due to the reduced scope and using an external construction manager instead of a general contractor to oversee several other specialty prime contractors' bid packages. It is not uncommon for scope and costs to change during the design process, which can occur through value engineering efforts or to meet project funding limits.

2015. Project design activities continued until the 100 percent construction documents were completed in August 2015. At that point, the PPPC Board's independent professional cost estimator projected construction costs to be $7.1 million. This was a decrease of approximately half a million dollars over the 2013 estimate. However, it is unknown whether reductions were part of standard project value engineering efforts with engineers considering implications to the renovation project, or whether the cuts were made at the Board level as part of broader budget discussions to reduce costs in general.

2017. Nearly 18 months later, in January 2017, the project architect prepared a competitive solicitation to bring on the general contractor for construction. This solicitation included the six bid packages for:

Construction Bid Packages	
• General Contractor: Structural and Architectural	• Heating, Ventilating, Air Conditioning (HVAC)
• Fire Suppression	• Epoxy Flooring
• Electrical	• Plumbing

When the PPPC Board's construction manager advertised the bid packages in January 2017, the total estimated worth of all six bid packages was $5 million, which was nearly $1.6 million lower than the 2013 construction cost estimate and over $2 million lower than the 2015 estimate.

Other than general statements, neither the PPPC Board nor Rec & Park could sufficiently explain the evolution of cost estimates over the years. If Rec & Park had ensured proper oversight and involvement in the project, including fulfilling its responsibilities related to developing and approving the budget, adequate records would have been maintained to provide meaningful insight into cost estimate decisions and changes with sufficient details and nuances.

At the start of construction in April 2017, the PPPC Board and its construction manager prepared a $11.9 million project budget to be financed through a bank loan secured by future garage operating revenues. Most of the budget—approximately $8.7 million—was dedicated for priority scope items. The remaining $3.2 million of the budget included $2 million for future projects to be completed after the main renovation work was finished, including elevator repairs, signage, and art, and $1.2 million, or 10 percent of the total project budget, for contingencies.

Exhibit 7 details the $8.7 million budget of priority scope items, which we used as a baseline for the assessment of the renovation project's financial performance.

EXHIBIT 7. APRIL 2017 PROJECT BUDGET

Budget Category	Budget Amount
Architect	$461,616
Construction Manager	$769,034
Total Professional Consultants	**$1,230,650**
General Contractor Mobilization, Bond, Insurance, General Conditions, Demolition	$530,000
Concrete Repairs	$353,000
Structural Framing, Including Stairs	$365,970
Moisture Protection and Waterproofing	$132,500
Doors And Windows, Including Roll-Down Security Gates	$307,500
Finishes, Including Plastering, Floor Sealers, And Painting	$263,671
Replace Aluminum-Framed Storefronts & Entrances	$81,550
Furnishings and carpentry	$40,000
Exterior Improvements and Signage	$51,000
Miscellaneous	$62,820
Subtotal General Contractor	*$2,188,011*
Plumbing Contractor	$145,291
Fire Suppression Contractor	$776,800
Electrical Contractor (Lighting, Fire Alarm, Emergency Generator, Switchboard)	$1,710,178
HVAC Contractor	$838,000
Total Contractors	**$5,658,280**
Consultants (Inspections, Abatement, Fire Sprinkler)	$105,000
Total Specialty Consultants	**$105,000**
Permits, Loan Fees, Builders Risk, etc.	$266,308
SKIDATA Equipment[4]	$1,000,000
Furniture Fixtures and Equipment	$155,000
CCTV Camera, Card Readers, LED Screens, Nema Boxes & Traffic Lights	$116,000
Pre-Construction Reimbursement	$178,390
Total Owner-Furnished	**$1,715,698**
Total Budget for Priority Scope Items	**$8,709,628**

Source: April 2017 budget.

In addition to the lack of City approvals, it does not appear the project budget went through any formal PPPC Board approval processes.

[4] Although MTA pays for the installation of SKIDATA as a capital expense for the garages it administers, the Portsmouth garage, administered by Rec & Park, used renovation project funding to pay for the system's installation.

Project Expenses Significantly Exceeded Budget, Resulting in Scope Reductions

According to project records, the PPPC Board incurred about $13.2 million in project-related expenses to complete the $8.7 million in priority scope items on the renovation project—a nearly 52 percent, or $4.5 million, overrun, as shown in Exhibit 8.

EXHIBIT 8. APRIL 2017 PROJECT BUDGET VERSUS EXPENSES AS OF APRIL 2021

Budget Category	Project Budget April 2017	Expenses as of April 2021	Difference
Architect	$461,616	$661,802	$(200,186)
Construction Management	$769,034	$1,639,310	$(870,276)
Owner's Representative	$0	$278,463	$(278,463)
Renovation Committee Support	$0	$123,366	$(123,366)
General Contractor	$2,188,011	$4,241,401	$(2,053,390)
Plumbing Contractor	$145,291	$19,340	$125,951
Fire Suppression Contractor	$776,800	$783,015	$ (6,215)
Electrical Contractor	$1,710,178	$1,823,253	$(113,075)
HVAC Contractor	$838,000	$837,198	$802
Specialty Consultants (Inspections, Abatement, Fire Sprinkler)	$105,000	$112,242	$(7,242)
Misc. Contractors (Programming, Concrete Scanning, Trucking)	$0	$81,085	$(81,085)
Legal Fees	$0	$1,103,405	$(1,103,405)
Permits, Loan Fees, Builders Risk, etc.	$266,308	$544,240	$(277,932)
SKIDATA Equipment[5]	$1,000,000	$972,116	$27,884
Owner-Provided Items[6]	$271,000	$16,037	$254,963
Pre-Loan Expenses Reimbursement	$178,390	(Included in other categories)	$178,390
Totals	**$8,709,628**	**$13,236,273**	**$4,526,645**

Source: April 2017 budget, project applications for payment, and bank statements.

Due to project cost overruns, the PPPC Board eliminated priority project scope items in 2018, including roll-down security grills, painting, pedestrian gates, and an emergency generator. Although capital projects often see cost escalation that require reassessment of scope features and/or budget adjustments, the garage renovation project had a significant absence of project cost control management.

To further cover the cost overrun after the scope reductions, the PPPC Board used the $3.2 million set aside for future projects and contingencies. The Board also used money from several of its bank accounts that held reserves built up over the years. (It is our understanding that the monies in the accounts were derived from an accumulation of the PPPC Board's share of parking revenues required for specific activities, such as garage maintenance and community participation, as well as CARES Act funding deposited in 2020.) The

[5] SKIDATA-related installation expenses are captured within the electrical contractor, construction management, and architectural budget categories.

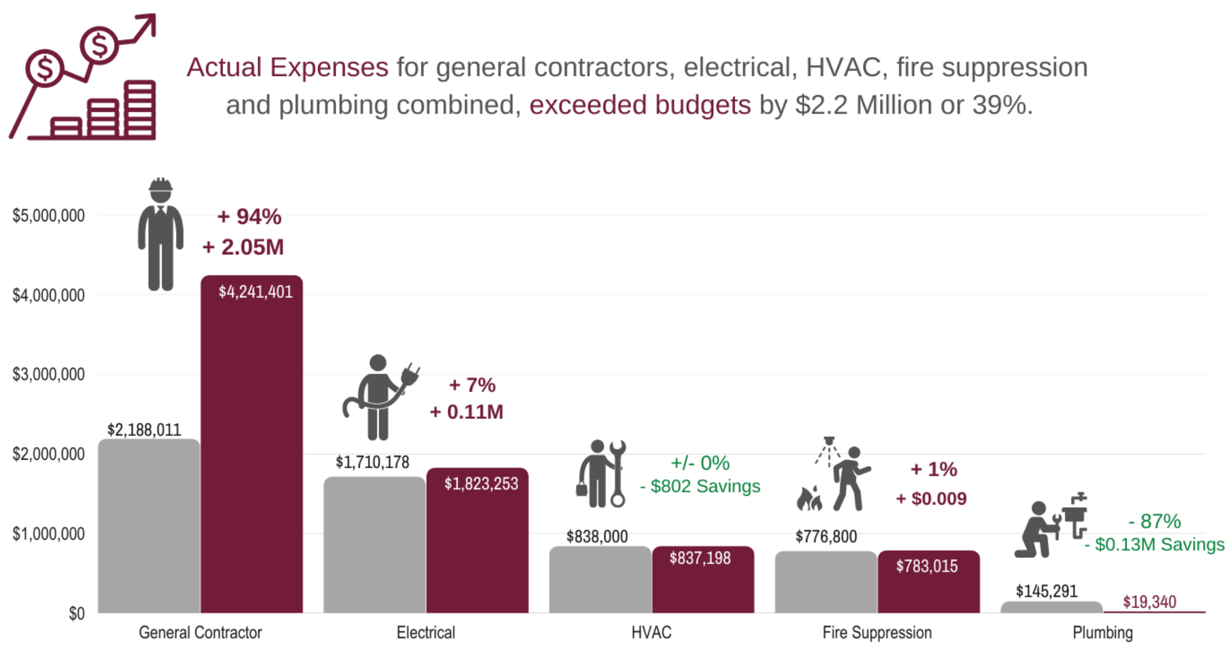
[6] Includes furniture, fixtures, equipment, such as CCTV Camera, Card Readers, LED Screens, Nema Boxes & Traffic Lights.

Board also eliminated much of the planned costs for owner-provided items, such as furniture and equipment, and settled on using existing and donated items instead.

General Contractor Expenses Responsible for More than $2 Million of Renovation Project Cost Overrun

The general contractor and four prime contractor budget categories totaled just over $5.5 million and expenses totaled nearly $7.6 million, a difference of about $2.1 million (39 percent) more than the April 2017 project budget estimated for these services. The excess accounts for almost 50 percent of the project's $4.5 million total budget overrun shown in Exhibit 8. Most of the overage is in the general contractor category, as shown in Exhibit 9.

EXHIBIT 9. COMPARISON OF CONSTRUCTION CONTRACTORS APRIL 2017 BUDGET ESTIMATE TO ACTUAL EXPENSES



Note: Most plumbing work was performed through the general contractor budget category.

Source: Auditor-generated from initial budget and contract documents, project pay applications, and bank statements.

The absence of management and oversight described earlier in the report contributed to the inefficiencies and significant turnover with the project's general contractors. For a variety of reasons, in just two years, from 2017 to 2019, the PPPC Board hired three general contractors in succession. As shown in Exhibit 10, a total of $4.2 million was paid to three general contractors to complete a scope of work that in April 2017 was estimated to cost $2.2 million. That is, nearly double the budget was paid for the general contractor category.

EXHIBIT 10. COMPARISON OF GENERAL CONTRACTOR APRIL 2017 BUDGET ESTIMATE TO ACTUAL EXPENSES

Service	Firm	Initial Contract Date	Project Budget April 2017	Total Expenses as of April 2021	Difference Between Project Budget and Expenses
General Contractor #1	Alpha Bay Builders, Inc.	4/07/2017	$2,188,011	$1,400,683	$787,328
General Contractor #2	Arana Group, Inc.	9/14/2018	$0	$1,271,644	($1,271,644)
General Contractor #3	LMNOP Design, Inc.	6/28/2019	$0	$1,569,074	($1,569,074)
			$2,188,011	**$4,241,401**	**($2,053,390)**

Source: April 2017 budget, contract documents, project applications for payment, and bank statements.

Based on project records, some of the cost overrun in the general contractor budget category appears to have been caused by a combination of the first general contractor underbidding the scope of work and its assertion that work was nearly complete when it ultimately required significantly more resources to complete than estimated. Also, the PPPC Board's transitions between three general contractors led to inefficiencies and occurred without proper comparative data required to contain construction costs.

First General Contractor Underbid Scope of Work, but PPPC Board Did Not Consider Why Bid Was So Low

In spring 2017, the project's first general contractor bid $2.1 million to complete approximately 55 individual scope items, which was more than $800,000, or 38 percent, lower than the PPPC Board's $2.9 million estimate. The notion that this difference indicates that the first general contractor underbid this work is supported by the fact that some of its estimates to complete individual scope items that (1) had not yet been started or (2) had little work performed before the contractor left the project were significantly less than the second general contractor's estimates to complete same work.

Exhibit 11 provides a few examples of mostly incomplete scope items where the first general contractor estimated that about $169,000 was needed to finish the work compared to the $464,000 estimate by the second general contractor—a 176 percent increase.

EXHIBIT 11. COMPARISON OF EXAMPLE SCOPE ITEM ESTIMATES BETWEEN FIRST TWO GENERAL CONTRACTORS

	General Contractor #1			General Contractor #2	% Cost Increase
	Bid	Reported % Complete at Departure	Remaining	Bid	
Alternate #1	$81,550	0%	$81,550	$106,471	31%
Graffiti-Resistant Coating	$15,671	6%	$14,671	$39,797	171%
Exposed Structural Steel	$115,770	36%	$72,345	$319,060	341%
			$168,566	**$465,328**	**176%**

Source: April 2017 budget and project applications for payment.

At the time of the first general contractor's bid, the PPPC Board, its professional consultants, and Rec & Park should have discussed why the bid was so much lower than estimates and considered whether the first general contractor understood the project's full scope and scale. Although the initial estimate by the first general contractor seemed to save the PPPC Board and project money, the increased costs were eventually realized when the second general contractor joined the project. According to project stakeholders, the PPPC Board opted to take the low bid without further consideration or discussions.

First General Contractor Asserted Some Work Was Mostly Complete, Although Additional Effort Was Required by Subsequent Contractors to Complete It

Through interviews of both PPPC Board members and review of internal Board memorandum and emails, we found a commonly held perception that the first general contractor's work was subpar and often required correction. This perception was also acknowledged in the first general contractor's January 2018 letter to the construction manager requesting to be removed from the project. However, the lack of adequate project documentation made it impossible to definitively determine the actual costs associated with potentially poor workmanship or whether the costs to correct deficiencies were borne by the contractor or by the PPPC Board through change orders. We noted that in the August 2018 separation agreement with the PPPC Board, the first general contractor accepted a reduced billing for the month.

It is likely that at least some of the costs associated with correcting work performed by the first general contractor would have been incorporated in the second general contractor's $2.2 million estimate when joining the project. In fact, we noted scope items that the first general contractor had asserted were mostly complete—which should have made it easy to accurately estimate the remaining effort and cost needed—were viewed significantly differently by the second general contractor. For example, as shown in Exhibit 12, the first general contractor asserted that it was 89 percent complete with glazing aluminum doors and just $4,400 was needed to complete the work. But when the second general contractor was hired, it estimated that much more effort—$34,000 worth—was needed to complete the work. Although there are more instances of variances between contractor estimates and additional work required in areas that were stated to be "nearly complete," we found that additional efforts needed for just three scope areas we reviewed increased in cost eight-fold, growing from just over $10,000 to nearly $87,000 to complete.

EXHIBIT 12. COMPARISON OF EXAMPLE SCOPE ITEM ESTIMATES BETWEEN FIRST TWO GENERAL CONTRACTORS

	General Contractor #1			General Contractor #2
	Bid	Reported % Complete at Departure	Remaining	Bid
Portland Cement Underlayment	$3,000	72%	$852	$24,611
Glazing aluminum doors	$40,000	89%	$4,400	$34,338
Cutting and patching	$30,000	83%	$5,000	$27,768
	$73,000		**$10,252**	**$86,717**

Source: April 2017 budget and project applications for payment.

Moreover, according to project meeting notes, once it joined the renovation project and assessed the condition of the work, the second general contractor identified additional corrective work needed, largely relating to metal stairs. The costs of this work were part of subsequent change orders. However, the PPPC Board did not provide documentation related to these change orders, restricting our ability to identify the portion of the costs attributable to corrective work.

Second General Contractor Potentially Overbilled for Some Work

As discussed earlier, the project architect identified about $586,800 in potential overbillings submitted by the second general contractor.

PPPC Board's Transition Between Multiple General Contractors Occurred Without Proper Comparative Data Required to Contain Construction Costs, Leading to Inefficiencies

Transitioning between three general contractors caused inefficiencies and contributed to cost overruns. In August 2018, the first general contractor was released from the project before all contracted work was completed. Bringing on the two subsequent general contractors to finish the work significantly increased the overall cost. When it left the project, the first general contractor was paid $1.4 million, or 64 percent, of its final contract amount (including change orders), but certified that only 56 percent of the scope of work was complete. Although the first general contractor estimated finishing the remaining scope of work would cost about $929,000, the second general contractor estimated that nearly $2.2 million was needed—close to $1 million more than the first general contractor estimated or that was available in the project budget in that category.

Unfortunately, the PPPC Board's process to award construction contracts when transitioning between general contractors did not involve soliciting bids through competitive processes, preparing owner estimates for the remaining cost of work, or requesting the project architect to confirm the percentage of work that was complete. As such, we do not have comparative data with which to determine the reasonableness of the estimates of work remaining provided by multiple contractors. However, had standard project management activities been adequately conducted, critical and timely information would have been available related to tracking project milestones and work completion. This would have allowed the PPPC Board to stay abreast of the project's status so project disruption and increased costs due to contractor turnover could have been minimized.

Construction costs also increased due simply to the additional expense associated with twice changing the project's general contractor. For example, the first general contractor was paid $70,000 to mobilize and get the job off the ground. When the second general contractor came on the job, it was paid the same amount for the same or similar activities.

Change Orders Increased Construction Costs, but Generally Appeared to Be Within a Reasonable Range of Contracted Amounts

Traditional design-bid-build projects, such as the Portsmouth garage renovation project, do not involve construction contractors in the design process. This can often result in numerous change orders during the construction phase to clarify scope and design issues found when implementing and building to plans and specifications—even when regularly updating cost estimates—leading to increased project costs. Some reasons change orders occur include a requested change to the project scope by the owner, inaccurate or insufficient detail in the scope of work, or unforeseen conditions discovered during construction.

The renovation project approved approximately 70 change orders totaling $482,959 in net additional costs—$862,398 in costs added to contract amounts for additional work and $379,440 in subtractions from contract amounts for removing scheduled work. Also, 92 percent, or $797,376, of the costs for additional work involved the first two general contractors and the electrical contractor, as shown in Exhibit 13.

EXHIBIT 13. CHANGE ORDERS AMOUNTS BY FIRST TWO GENERAL CONTRACTORS AND ELECTRICAL CONTRACTOR

Service	Firm	Change Order Amounts			Original Contract Amounts	Payment Amounts	Change Orders as % of Contract Amount	Change Orders as % of Payment Amount
		Additions	Subtractions	Net Amount				
General Contractor #1	Alpha Bay Builders, Inc.	$168,573	$992	$167,581	$2,126,191	$1,400,683	8%	12%
General Contractor #2	Arana Group, Inc.	$316,131	$148,443	$167,688	$2,153,511	$1,271,644	8%	13%
Electrical Contractor	Edward W. Scott Electric Co. Inc.	$312,672	$199,597	$113,075	$1,710,178	$1,823,253	7%	6%
		$797,376	**$349,032**	**$448,344**	**$5,989,880**	**$4,495,580**	**7%**	**10%**

Source: Change orders, contract documents, project applications for payment, and bank statements.

Although there is no industry standard or acceptable percentage of change orders that is reasonable for a construction project, some entities use a 10 percent change order threshold in relation to the original contract value as a general indicator to monitor contract performance. Using this guidance, the change orders reflected in Exhibit 12 increasing the three contract values for additional work were generally within a reasonable range. However, although none of the three contractors exceeded the 10 percent industry change order threshold and contractors were generally paid less than their original contract amounts, the value of the change orders accounted for between 6 and 13 percent of the total amounts paid to the contractors. When payments made to contractors for traditional design-bid-build projects are substantially less than original bids, but change orders represent a considerable portion of the payments, this could be an indicator of significant challenges with the project's design plans, differing site conditions, or owner requested changes.

Poor recordkeeping resulted in the PPPC Board being unable to produce documentation for all change orders necessary to justify increased project costs or to determine with certainty why some of the additional work was required. The available documentation reflects the lack of a systematic approach to processing, categorizing, and tracking the causes or necessity of the changes, such as owner-initiated changes, unforeseen conditions, or design clarifications. Rather, much of the change order documentation we reviewed simply describes the additional work needed, often without describing why the change was needed, comparing the requested change to specifications for allowability, or indicating that price negotiations occurred before approval. Categorizing reasons for change orders is a first step in the process and protects the integrity of the bidding process by ensuring no changes are approved if already associated with work included in the original specifications that could have affected the results of the bid evaluation process.

Based on information from several sources, we conclude that many of the additional services were related to owner requests and likely related to subpar work from previous contractors that went unnoticed by those responsible for overseeing the project. For example, at least $88,359 of the electrical contractor's change order additions, which totaled $312,672, appear to be related to additional electrical work requested by MTA associated with installing an automated revenue control system that was not included in the bid documents or contract's scope of work. Additional change orders totaling more than $250,000, which increased the second general contractor's contracted amount, seem to be related to corrective work on the stairs and additional repair work needed on the concrete.

$1 Million in Renovation Project Cost Overrun Attributed to Professional Consultants

Additional unexpected professional consultant costs contributed another $1 million in cost overruns, as shown in Exhibit 14.

EXHIBIT 14. COMPARISON OF PROFESSIONAL CONSULTANTS' APRIL 2017 BUDGET ESTIMATE TO ACTUAL EXPENSES

Budget Category	Firm	April 2017 Project Budget	Expenses as of April 2021	Difference	
Architect Services	Beth Morris Architecture	**$461,616**	**$661,802**	**$200,186**	**43%**
Construction Management		**$769,034**	**$1,639,310**	**$870,276**	**113%**
• Construction Manager #1	Josehart Construction Management, Inc.	$769,034	$936,114	$167,080	
• Construction Manager #2	Arana Group, Inc.	$0	$366,551	$366,551	
• Construction Manager #3	LMNOP Design, Inc.	$0	$336,645	$336,645	
Professional Consultant Totals		**$1,230,650**	**$2,301,112**	**$1,070,462**	**87%**

Source: April 2017 budget, project applications for payment, and bank statements.

Like the revolving door of general contractors described earlier, the renovation project also had three construction managers at various points during 2017 through 2019, causing similar inefficiencies and cost increases. As shown in Exhibit 13, the three construction managers were paid a combined $1,639,310, or more than double the budget estimated for construction management services. Also, the project architect was paid $200,000, or 43 percent, more than the amount budgeted.

First Construction Manager Was Paid 22 Percent More Than Budgeted

The first construction manager was paid $936,114, or 22 percent, more than the April 2017 budget category anticipated. Contributing to the cost overrun was that the first construction manager remained on the project at the request of the PPPC Board during the first three months that the second construction manager/general contractor had assumed project responsibilities to assist with the transition and was paid nearly $60,000 for these efforts. Because the first construction manager was paid on a time and materials basis, it is difficult to ascertain with certainty the cause of the cost overrun other than that the manager expended more hours than anticipated.

Hiring Subsequent Construction Managers Further Increased Project Costs

When the first construction manager left the project, the budget category for construction management services was already exceeded and subsequent firms providing these services only contributed to further cost overruns. When the second construction manager/general contractor joined the project, the firm entered a lump sum contract with the PPPC Board for $500,000. The contract's scope was fact finding and assessment services and typical construction management services and payment was to be based on the percentage of completion of the bid packages.

Yet, just eight months into its contract, the second construction manager/general contractor left the project before work was complete due to a dispute over late payments. The firm sought full payment of the $500,000 contract amount, stating that 100 percent of the construction management services was complete. However, not all construction work was complete. In fact, the firm's own work associated with Bid Package #1—according to which the firm simultaneously acted in the conflicting roles of construction manager and general contractor, as discussed in a later in the report—was only 60 percent complete at the time. The PPPC Board withheld $182,428 from the final payment associated with incomplete construction management services—the firm was only paid a total of $366,551. The disputed additional contract payment was resolved through arbitration in 2021.

The third and final construction manager was brought onto the project in June 2019 to complete some specific—but not all—priority scope items. This firm signed a lump sum contract that covered both construction management and general contractor services and totaled $300,000 for onboarding, mobilization, and project work advances. In total, the amounts paid to the third construction manager totaled $336,645, continuing the mounting cost overruns in the construction management budget category.

Architect Services Cost 43 Percent More Than Budgeted

Lastly, although architectural services were provided by a single professional consulting firm that remained throughout the course of the project, payments in this category were also significantly overbudget. Specifically, the project architect was paid a total of $661,802 compared to the PPPC Board's April 2017 estimate that these services would cost $462,000—a difference of more than $200,000, or 43 percent higher than budgeted. Much of the overage involved a March 2019 Additional Service Agreement (ASN) for about $86,000 to extend the schedule and continue providing construction administration services beyond the estimated substantial completion date of February 2019 and several additional ASNs involving coordinating with and presenting information to MTA and the San Francisco Public Utilities Commission.

Unbudgeted Items Increased Project Expenses by an Additional $1.6 Million

As shown in Exhibit 15, the renovation project also incurred almost $1.6 million in unbudgeted expenses, largely related to hiring two consultants to serve as the owner's representative and Renovation Committee Support as well as unanticipated legal fees and settlement costs with a contractor that left the project.

EXHIBIT 15. UNBUDGETED EXPENSES

Expense Type	Project Budget April 2017	Expenses as of April 2021
Owner's Representative	$0	$278,463
Renovation Committee Support	$0	$123,366
Miscellaneous Contractors (Programming, Concrete Scanning, Trucking)	$0	$81,085
Legal Fees and Settlement	$0	$1,103,405
Totals	**$0**	**$1,586,319**

Source: April 2017 budget, project applications for payment, and bank statements.

Because the second construction manager/general contractor formally terminated its contract with the PPPC Board in May 2019 and initiated legal action over disputes related to late payments and penalties, the Board incurred over $500,000 in legal expenses and a $450,000 monetary settlement.

Also, the PPPC Board contracted with two consultants to help complete the project. First, a month before the PPPC Board brought on the third construction manager to the project, the Board hired a former subcontractor of the second construction manager/general contractor to serve as the PPPC Board's owner's representative. The owner's representative was paid about $266,000 for providing monthly services between March 2019 and December 2019 plus an additional $12,463 in expenses. We noted that the owner's representative resigned its association with the second construction manager/general contractor in April 2019, but was paid by the PPPC Board for services provided in March 2019, a month before the separation. It is unclear if the owner's representative was paid by both the second construction manager/general contractor and the PPPC Board for work on the project in March 2019.

After the third construction manager left the project in October 2018 and the contract with the owner's representative ended December 2019, the PPPC Board contracted with another individual to assist the Renovation Committee for the months of January and February 2020 to finish the project, primarily focused on obtaining the final certificate of occupancy. The original contract and subsequent amendments indicated the consultant was to be paid $26,000 per month from January through March 2020 and $13,000 in April 2020, for a total of $91,000.

Due to Cost Overruns, More Than $1 Million of Planned Construction Work Was Not Completed

Based on our review of the contractor schedule of values and discussion with PPPC Board members, large portions of the renovation project's priority scope were complete, including the following key components:

Key Project Scope Items Completed	
• Metal Stairs and Handrails	• New Administration Office and Staff Break Room
• New Fire Alarm System	• Stairwell and Exhaust Shaft Enclosures
• New and Upgraded Lighting	• SKIDATA Parking Control System and Cameras
• New HVAC System	• Concrete Repairs

However, due to the significant project cost overruns to complete these items, the PPPC Board had to eliminate several other priority scope items. One of the earliest documented mentions of cost concerns was the minutes of the June 2018 PPPC Board meeting, which indicate the Board unanimously approved a motion to eliminate and defer portions of the project's scope of work. The Renovation Committee presented the Board with three reasons for the scope reduction: decreased garage operational revenue, unsatisfactory performance of the first general contractor, and the need to reduce the project loan amount. Some of the items listed to be eliminated or reduced included overhead doors, elevator upgrade, and decorative work. At the time, the Renovation Committee estimated the planned reductions would save $3.4 million, although it is not clear how the amount of the reduction was determined as there was no detail, just a lump sum estimate. Also, it is not clear how scope items were prioritized for elimination.

Reductions to the scope occurred largely from August 2018 through 2019. Items were removed through (1) change order subtractions or (2) after the second general contractor's contract was terminated and the scope items were just dropped from the project (Due to the latter, some reductions would not have been reflected as change order subtractions.) Ultimately, in December 2019, an estimate was prepared showing that over $1 million would be saved on the key priority scope items that were eliminated, including the following:

Key Project Scope Items Eliminated	
• Roll-up Doors—$200,000	• Metal Doors—$156,000
• Painting—$288,000	• Waterproofing—$121,000
• Epoxy Flooring—$65,000	• Generator—$172,000
• Security Grills/Gates—$75,000	• Doors and Hardware—$36,000

When items were eliminated through change orders, we noted discrepancies between amounts subtracted from the Contractor's contract for the scope item and amounts the project architect indicated the item was worth. For example, one change order removing work related to several items, including roll-down security grills, pedestrian gates, parking bay infill, conference room, and storefront totaled about $150,000, yet the project architect's notes indicate the value of these items should have been significantly higher—more than $500,000. Thus, the Board may not have received full credit for eliminated items, and the ultimate value of priority work planned but not completed could be significantly higher than $1 million. In February 2020, Rec & Park contracted directly with the project architect to obtain an independent estimate for completing the priority scope items that were deferred, and the cost was estimated to be almost $1.7 million. [7]

[7] Excludes the cost of elevator modernization that was not part of the April 2017 budget for priority items.

Section 4. Project Employed Insufficient Controls Meant to Ensure Contractors Complied With Contract Payment Provisions

Although the Renovation Committee established some informal protocols for reviewing and approving payments, our review found payments often lacked adequate support for charges, some payments were approved despite conflicting interests, and established payment controls in contracts were not always followed. We reviewed 21 project payments totaling more than $1.5 million, or nearly 12 percent of the total project expenses.

Section 4 Key Findings:

- Amounts Paid to First Construction Manager Significantly Exceeded Contract Fee Estimate
- Construction Contracts Required Construction Manager Approval of Payment Applications; However, No Evidence That Schedules of Values Were Reviewed
- First Two Construction Managers and Owner's Representative Consultant Approved Their Own Invoices for Payment, Including for Some Work Not Performed
- Payments to Renovation Committee Consultant Were Not Adequately Supported
- Project Architect Appears to Have Been Paid for Estimated Charges
- Established Payment Controls for Prime Contractors, Including City's Certified Payroll Submission Requirements, Were Not Always Followed

Amounts Paid to First Construction Manager Significantly Exceeded Contract Fee Estimate

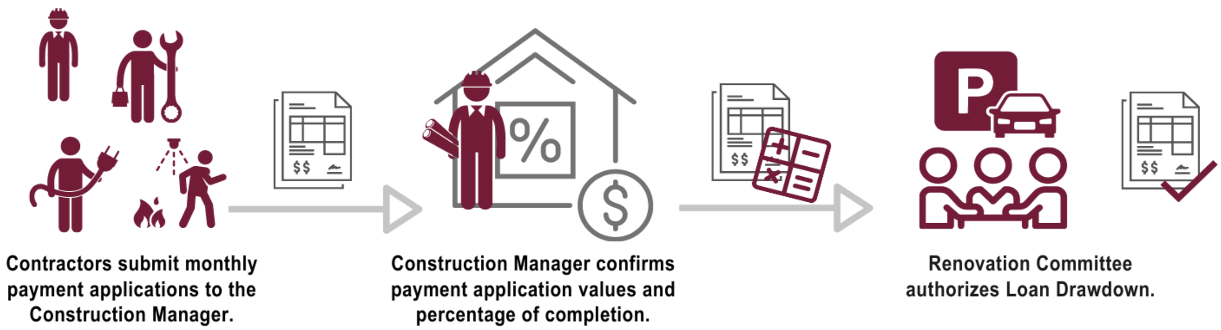
The PPPC Board's contract with the first construction manager was a time and materials contract that included a fee estimate for services provided under the agreement totaling $616,000, yet the firm was paid $936,114—nearly 52 percent more than the contract amount. Although the contract provides for the possibility of additional services, an updated fee schedule was not developed and there was no pre-approval documentation supporting the more than $300,000 in additional services provided. While the rates charged and paid aligned with the rates established in the contract, without any support for the additional services provided, the PPPC Board cannot be assured that the amounts billed were for valid services that it requested.

Construction Contracts Required Construction Manager Approval of Payment Applications; However, No Evidence That Schedules of Values Were Reviewed

Most of the project's contractors followed standard processes to prepare and submit payment applications monthly that included invoices and other supporting documentation and an updated "schedule of values." The schedule of values shows how much a contractor has billed for each segment of construction work, the amount being billed in the current payment application based on percent of work completed, and how much remains in the contract. Further, the schedule of values functions as a tool used to ensure progress payments align with work completed and should be agreed upon by the parties to avoid under- or overpayments during the project. In line with the Construction Management Association of America's (CMAA) Cost Management Guidelines, each of the project's construction contracts with the PPPC Board require the construction manager to approve the schedule of values and confirm the percentage completion claimed by the contractors.[8]

As shown in Exhibit 16, monthly, payment applications were submitted first to the construction manager for approval and then to the Renovation Committee to authorize the drawdown of project funding from the bank.

EXHIBIT 16. CONSTRUCTION PROGRESS PAYMENT PROCESS FOR THE PORTSMOUTH GARAGE PROJECT



Source: Auditor-generated based on audit analyses.

However, for none of the payments tested did the Renovation Committee provide any documentation demonstrating that a schedule of values included in the payment applications were reviewed and approved by construction management to ensure contractor payment requests aligned with actual work completed.

First Two Construction Managers and Owner's Representative Consultant Approved Their Own Invoices for Payment, Including for Some Work Not Performed

According to the Renovation Committee, it relied on the construction managers, and later the owner's representative and Committee consultant, to thoroughly review payment applications for accuracy before the PPPC Board authorized contractor payments. However, we noted instances in which some of the project's professional consultants approved their own invoices and instances in which consultants approved invoices for construction activities performed by other divisions of the same firm. No contractor of any type should be allowed to approve its own invoices as this eliminates a needed control and creates a risk that payments could be made inappropriately.

Our payment testing revealed an instance in which the second construction manager/general contractor approved payments for its own general contractor work that was subsequently considered incomplete. Specifically, the second general contractor submitted a payment application totaling about $205,600 for services provided in February 2019 that was reviewed and approved by the general contractor's firm that also acted as the construction manager at the time, two roles that conflict, as discussed earlier in the report. After the payment application was approved and the PPPC Board authorized the corresponding drawdown of funds from its bank, the Renovation Committee subsequently found that the general contractor did not provide some of the services that its firm had approved for payment. The Contractor was paid about $181,000—approximately $24,600 less than the amount invoiced and initially approved.

[8] CMAA Cost Management Guidelines, 2018 edition.

Similarly, instead of the Renovation Committee, acting as project manager, approving the invoices for services provided by the professional consultants, payment testing revealed instances where both the first and second construction manager/general contractors and owner's representative approved their own invoices for payment. This is consistent with the approach described by the Renovation Committee, which was that it did not approve invoices and only authorized funding drawdowns.

Although payment testing found one instance in which a payment was reduced as a result of the Renovation Committee's subsequent review, the reoccurring issue with consultants and contractors approving their own work increased the risk that the PPPC Board paid for other inappropriate expenses that were not identified.

Lastly, although not included in the payment testing, our cursory review of invoices submitted by the third construction manager/general contractor found those invoices were reviewed and approved by the owner's representative, mitigating a potential conflict-of-interest issue associated with those payments.

Payments to Renovation Committee Consultant Were Not Adequately Supported

Our review of $91,000 in payments associated with five invoices submitted by a consultant hired to assist the Renovation Committee during the last months of the project found that the Renovation Committee could not adequately support the amounts paid. For all five invoices submitted by the consultant, the invoices only include a brief paragraph describing the types of activities performed during the invoiced period. However, the invoices do not include any information supporting the charges, such as timesheets or deliverables, that would demonstrate the level of effort that was employed by the consultant or when the services were provided. Although the contract with the consultant was based on a fixed fee amount and did not require the Contractor to submit any supporting information, the Renovation Committee cannot be assured that services provided reasonably equated to the monthly fixed fee amount. For this service, a time and materials contract model that required support for amounts billed may have been a better option.

Project Architect Appears to Have Been Paid for Estimated Charges

The project architect submitted an invoice for $16,200 for services provided in December 2019 under an Additional Service Agreement that permitted the professional consultant to bill for actual time and materials. However, the amounts invoiced appear based on estimated time—not actual services performed—as the invoice notes "schedule extension – EST" as the description for the charges, but without any additional support or context provided. Supporting the notion that it was for estimated time, the invoice does not include any underlying detail or support, such as a breakdown of hours and rates billed or employee timecards necessary to substantiate amounts invoiced—support that was provided for previous amounts invoiced by the project architect. Without the underlying support, we cannot assess whether the amounts paid were appropriate and for actual services provided.

Established Payment Controls for Prime Contractors, Including City's Certified Payroll Submission Requirements, Were Not Always Followed

Each of the agreements with the project's contractors required compliance with payment provisions established in the "Project Manual" as incorporated into the contract by reference. We found that some of the payment application requirements established in the Project Manual were not followed by contractors or enforced by the construction manager or Renovation Committee. The requirements established in the Project Manual were in line with the industry's leading practices and would have provided some additional controls and assurance that amounts invoiced by contractors and paid by the PPPC Board were appropriate and allowable and that contractors complied with applicable laws and regulations.

Specifically, the project's contractors were required to comply with statutory requirements, such as prevailing wage requirements in the Administrative Code, Section 6.22(e). Also, the lease requires the Board to ensure subcontractors comply with the City's prevailing wage requirements. Although the Renovation Committee did not fulfill its responsibility to ensure contractors complied with prevailing wage requirements, the Committee stated that contractors may have submitted certified payroll records to the City or construction manager without its knowledge. However, a 2019 audit conducted by the City's Office of Labor Standards Enforcement (OLSE) found the renovation project had never been established in the City's certified payroll reporting program, LCPtracker, and found that one of the project's general contractors did not pay (underpaid) prevailing wages.

Exhibit 17 reflects the additional results of our testing of two general contractors and three specialty prime contractors' compliance with payment controls. We did not select the final general contractor for this portion of testing because its work was completed based on specific task orders.

EXHIBIT 17. CONTRACTOR COMPLIANCE WITH PROJECT MANUAL VOLUME 1 KEY PAYMENT APPLICATION REQUIREMENTS

Price and Payment Requirements, Section 01 20 00	
Subsection 1.02: Schedule of Values:	
Use Form AIA G-703	**3 OF 5 CONTRACTORS COMPLIED.** Electrical and Fire Contractors did not comply with this requirement.
Format: Utilize the Table of Contents of this Project Manual. Identify each line item with number and title of the specification Section. Identify site mobilization.	**NO CONTRACTORS COMPLIED.**
Include separately from each line item, a direct proportional amount of Contractor's overhead and profit.	**NO CONTRACTORS COMPLIED.**
Subsection 1.03 Applications for Progress Payments:	
Use Payment Application Forms AIA G-702 and G-703.	**4 OF 5 CONTRACTORS DID NOT COMPLY.** GC #2 complied with this requirement.
For each item, provide a column for listing each of the following:	
1. Item Number.	**4 OF 5 CONTRACTORS COMPLIED.** Electrical Contractor did not comply with this requirement.
2. Description of work.	**ALL CONTRACTORS COMPLIED.**
3. Scheduled Values.	**ALL CONTRACTORS COMPLIED.**
4. Previous Applications.	**ALL CONTRACTORS COMPLIED.**
5. Work in Place and Stored Materials under this Application.	**4 OF 5 CONTRACTORS COMPLIED.** Electrical Contractor did not comply with this requirement.
6. Authorized Change Orders.	**ALL CONTRACTORS COMPLIED.**
7. Total Completed and Stored to Date of Application.	**ALL CONTRACTORS COMPLIED.**
8. Percentage of Completion.	**4 OF 5 CONTRACTORS COMPLIED.** GC #1 did not comply with this requirement.
9. Balance to Finish.	**3 OF 5 CONTRACTORS COMPLIED.** GC #1 and Electric Contractor did not comply with this requirement.
10. Retainage [standard 10%]	**3 OF 5 CONTRACTORS COMPLIED.** GC #1 and Electric Contractor did not comply with this requirement
Execute certification by signature of authorized officer.	**4 OF 5 CONTRACTORS DID NOT COMPLY.** GC #1 complied with this requirement.
List each authorized Change Order as a separate line item, listing Change Order number and dollar amount as for an original item of Work. Standard 10% retainage applies.	**ALL CONTRACTORS COMPLIED.** This requirement was not applicable to the Fire Contractor.
Include the following with the application:	
1. Transmittal letter as specified for Submittals in Section 01 33 00.	Section cited does not appear to be related to payment applications.
2. Partial release of liens from major subcontractors and vendors.	**NO CONTRACTORS COMPLIED.** For 3 of the 4 contractors, release of liens was only included from the prime contractor, but not from the subcontractors. This requirement was not applicable to the Electrical Contractor.
3. Affidavits attesting to off-site stored products.	Not Applicable.

Source: Auditor-generated from project manual and contractor invoices.

Section 5. Project Schedule Faced Numerous Delays Caused by Consultant and Contractor Work Stoppages

Although project schedules were used, the start of construction activities was delayed by several years and once construction began, contractor turnover and work stoppages ultimately delayed the completion of the project by a year.

Section 5 Key Findings:

- Early Schedule Anticipated Project Start of 2014, but Delays Pushed Out Construction Start by Almost Three Years, to April 2017
- Schedule at the Start of Construction Anticipated February 2019 Completion; However, Contractor Turnover and Work Stoppages Delayed Completion Until April 2020

Early Schedule Anticipated Project Start of 2014, but Delays Pushed Out Construction Start by Almost Three Years, to April 2017

The 2014 contract between the PPPC Board and the first construction manager reflects the earliest documented planned project start and completion dates. At that time, construction on the project was estimated to begin in the third quarter of 2014 and last approximately 18 months, with completion by the first quarter of 2016. However, delays associated with hiring the project architect, getting plans approved, and securing project funding caused the start of construction to be delayed by three years, with an eventual start in April 2017. The exact causes of these delays are unclear.

Although schematic designs were complete before the PPPC Board hired its first construction manager, the project architect (needed to design the project) was not hired until November 2014, months after the estimated start of construction reflected in the construction manager's contract. The project architect's contract documents reflect an updated and refined project schedule, which pushed out the start of construction about a year, to October 2015, from the earlier estimated start of the third quarter of 2014.

The November 2014 schedule (per the project architect's contract) shows that the overall project was scheduled to last just over two years and be complete in March 2017, as shown in Exhibit 18.

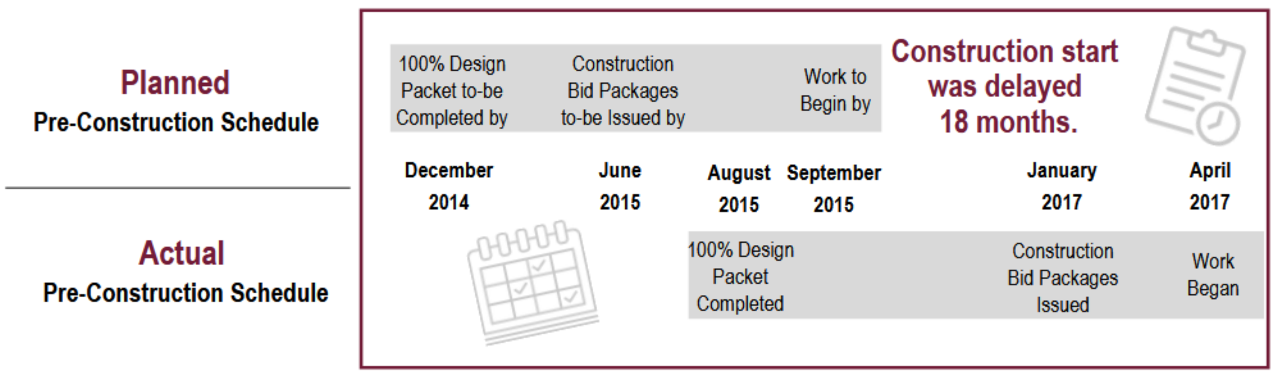
EXHIBIT 18. NOVEMBER 2014 PROJECT SCHEDULE

Phase	Start	Finish
Design Phase	December 1, 2014	June 5, 2015
Bid & Award	June 8, 2015	October 26, 2015
Construction	October 27, 2015	March 27, 2017
Overall Schedule	**December 1, 2014**	**March 27, 2017**

Although the November 2014 project schedule planned the design phase to be completed in June 2015, the 100 percent design packet was not completed or approved by the Rec & Park Commission until September 2015. Soon after, in November 2015, the PPPC Board submitted the plans for permitting approval. Due to the general lack of sufficient or organized project documentation, we could not identify the specific reasons for delays during the design phase or whether they were reasonable given the circumstances.

The PPPC Board's work to secure project financing was the primary focus for much of 2016, which had to be completed before construction contracts could be awarded. Because the loan was not funded until November 2016, the project timeline was delayed. In fact, the bidding phase of the project, which was scheduled to start in June 2015, was pushed to January 2017 when six bid packages were issued with plans and specifications. As expected, these delays impacted the start of construction, which was to have occurred in October 2015 per the revised plan but actually occurred in April 2017. The start of construction was almost two years later than the date stated in the November 2014 project schedule, as reflected in Exhibit 19, and three years later than was estimated when the first construction manager was hired.

EXHIBIT 19. NOVEMBER 2014 PLANNED SCHEDULE VERSUS ACTUAL PRE-CONSTRUCTION TIMELINE

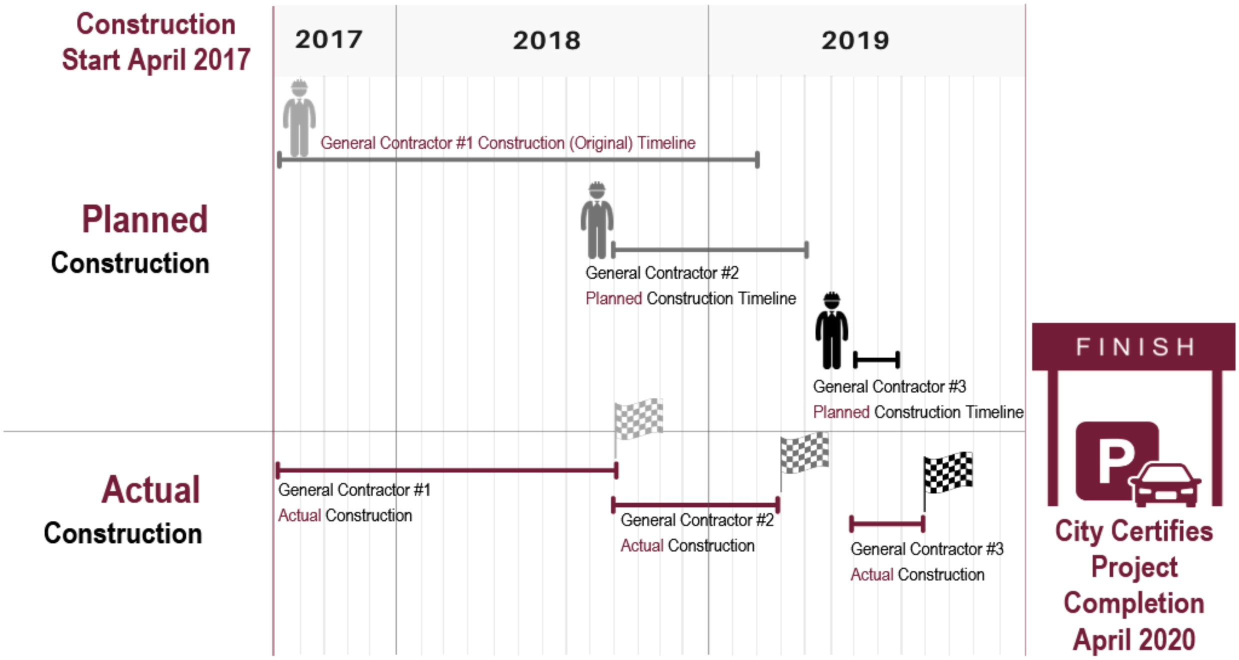


Source: Auditor-Generated based on project schedules.

Schedule at the Start of Construction Anticipated February 2019 Completion; However, Contractor Turnover and Work Stoppages Delayed Completion Until April 2020

Construction on the renovation project officially began in April 2017, at which time it was scheduled to be completed in less than two years, by February 2019. However, completion of the project was delayed more than a year, ultimately finishing in April 2020, as shown in Exhibit 20. Delays occurred even though the PPPC Board reduced scope, as discussed earlier, with fewer activities—primarily due to contractor turnover and work stoppages.

EXHIBIT 20. PLANNED VERSUS ACTUAL CONSTRUCTION & GENERAL CONTRACTOR TURNOVER TIMELINE



Source: Auditor-Generated based on project schedules.

An updated project schedule produced by the first construction manager a few months into construction, which includes schedules covering the first general contractor and three other prime contractors, indicates the project would be substantially complete in February 2019. However, the first construction manager's last project schedule, produced before he and the first general contractor departed the project in summer 2018, reflects a revised completion date of March 2019. The difference is just a one-month delay compared to the updated schedule, but still three years behind the initial planned project completion of the first quarter of 2016 described earlier.

Although the general lack of organized project documentation makes it difficult to determine why schedule adjustments occurred after construction started, February 2018 PPPC Board meeting minutes cite several reasons for project delays during this time, including the first general contractor's project manager leaving, improperly prepared drawings, poor communication between project architect and contractors, and some work requiring corrections, such as improper door and lighting installations.

When the second construction manager/general contractor took over the project in September 2018, it planned to complete the project in April 2019, only two months later than was scheduled at the start of construction. However, the firm later revised the project completion date to June 2019, two months later than it had originally scheduled. According to one project participant, the PPPC Board struggled to get the contractors to return to the project during this time as most contract monies had been paid out, leaving little incentive for the contractors to return even though work remained to be done.

It is important to note that, starting with the second construction manager/general contractor, the overall project schedule only considered his own work as the general contractor. Thus, the other three Prime Contractors' schedules were no longer covered by the overall project schedule, unlike the arrangement under the first construction manager. However, when the second construction manager/general contractor joined the project in fall 2018, the three Prime Contractors were apparently nearly finished with their work, according to their submitted schedules of values, which may explain why their project schedules were not considered at this point.

In March 2019, just six months after beginning work on the renovation project, the second construction manager/general contractor and its subcontractors stopped construction work due to late payments and other related disputes. The dispute that ultimately stopped work on the project centered on the PPPC Board's bank temporarily halting the ability to drawdown project funding until bank-required approvals from the PPPC Board and Rec & Park were obtained. This process took several months, longer than the PPPC Board anticipated, and required the loan drawdown deadline to be extended. In May 2019, the firm filed a claim against PPPC formally terminating its contracts for construction management and general contractor services with the PPPC Board and sought legal remedies to resolve the issues.

In July 2019, when the PPPC Board hired the third construction manager/general contractor, construction activities on the project had mostly been paused for several months and the most recent scheduled project completion date of June 2019 had passed. The new firm did not create a new project schedule, but instead projected that all remaining project construction tasks assigned to it and its subcontractors would be complete by the end of September 2019. Despite this deadline, some subcontractors that previously stopped work on the project did not fully return to work until August 2019, leaving less than two months to complete the project by the newly established date. Although most of the third construction manager/general contractor's agreed-upon work was completed by the end of September 2019, certain punch list items were not finished until January 2020.

It was not until April 2020, when the final inspection by the San Francisco Department of Building Inspection was completed and a certificate of occupancy issued, that the project was considered complete. This was just over a year later than the February 2019 planned completion date estimated at the start of construction. However, the project would have been further delayed had the PPPC Board not significantly reduced the scope of the project, as described earlier. Although it is difficult to precisely estimate how long the project could have taken if constructed to the original scope, it is likely the project would have stretched well past April 2020.

Section 6. Project Appropriately Involved Work Quality Observations and Inspections

We found that the garage renovation project appropriately involved site visits by the project architect and engineering subconsultants and field observation reports identified routine and typical issues that would be encountered with any construction project. In April 2020, the project architect issued a substantial completion memo, which, according to industry standards, means the project was sufficiently complete in accordance with the contract documents and the work could be used for its intended purpose.

Section 6 Key Findings:

- Architectural and Engineering Field Observations Identified Routine Work Issues
- External Inspection Services Were Performed to Examine Quality of Work
    - Special Inspections Were Conducted as Required by City Building Code
    - San Francisco Building Inspection Department Approved Work Quality of Project
    - Lender Inspection Reports Reviewed Provided Limited Information, Although No Quality Issues Were Raised

Architectural and Engineering Field Observations Identified Routine Work Issues

The project architect and its two engineering subconsultants periodically visited the project site to monitor construction activities. After each visit, field observation reports were prepared to document the progress of the project and general conformance with the construction documents, which is in alignment with industry best practices. The reports were intended to provide information on known deviations from the contract documents and any defects in the work. Although this was an important mechanism to monitor the quality of project work, the architect and engineering team was not expected to continually visit the project site or identify all possible deficiencies.

According to our discussion with the project architect, the renovation project involved typical issues that would be encountered with any construction project and the primary issue was the excessive time the first general contractor required to complete tasks due to insufficient project staffing. The project architect and its two engineering subconsultants prepared a combined 36 field observation reports between August 2017 and December 2019. A few of the types of key findings in these reports are reflected in Exhibit 21.

EXHIBIT 21. EXAMPLE FINDINGS REPORTED IN FIELD OBSERVATION REPORTS

Concrete Issues	Water Issues	Electrical Issues	Work does not match plans/designs
Poor concrete wall infill work	Lack of water drainage in concrete installed at existing sculptural element leading to mold	Mechanical fan rooms have loose control wiring	Pay stations installed in location that differs from that shown in architectural plans
Poor concrete work that does not meet standards and spalling concrete	Water intrusion reported at interior	Conduit installation not acceptable	Sheet metal drawings/finish samples not submitted by contractor
Concrete wall has cracks and is splotchy	Condensation	Consistently failing to remove abandoned conduits	

Source: Project architect field observation reports.

Although it is unclear how the issues documented in field observation reports were typically monitored to ensure issues were corrected, ultimately all issues were resolved, as indicated by the fact that the project architect issued a substantial completion memo in April 2020.

External Inspection Services Were Performed to Examine Quality of Work

The renovation project underwent external inspections required by the City Building Code, and the City's Department of Building Inspection (DBI) gave its final approval of the project's work quality. Also, the bank that financed the renovation project used independent inspection services to review the work before it approved funding for project payments.

Special Inspections Conducted as Required by City Building Code

Special inspections are required by the San Francisco Building Code, Sections 1701 to 1704, and include requirements to monitor the materials and workmanship critical to the integrity of the building structure or public safety. The PPPC Board hired an inspection services firm to perform special inspections to ensure compliance with approved plans and City and state building codes. Multiple reports prepared during April 2018 through September 2019 indicate that inspections were conducted on the following areas of work:

- Steel/Welding
- Anchor Proof Load Testing and Installation
- Reinforcing Steel and Concrete Placement
- Demolition of Metal Stairs
- Ground-Penetrating Radar

Although the reports reflected seven instances of noncompliance generally pertaining to the installation of the stair enclosures and metal stair replacements, the project architect's engineering subconsultant stated in a January 2020 letter that it had reviewed the exception reports and either had no concerns regarding the noncompliance issue(s) or the issue(s) had been corrected. A civil engineer supervising the inspection work issued two final affidavits to DBI in January and March 2020 attesting that the work inspected was in substantial conformance with the approved plans and applicable building codes. Also, the same inspection firm was hired to conduct concrete compression testing, and its reports, prepared between July 2018 and September 2019, indicate that the work passed the tests.

DBI Approved Work Quality of Project

DBI is the regulatory building safety agency responsible for overseeing the effective and efficient enforcement of building, electrical, plumbing, disability access, and housing codes for the City's residential and commercial buildings. DBI reviews and approves construction plans before issuing a permit and conducts inspections before the start of specific phases of work and before granting a project's final approval. Exhibit 22 reflects the permits DBI issued and approved related to the renovation project.

EXHIBIT 22. PROJECT PERMITS FROM DEPARTMENT OF BUILDING INSPECTION

Permit Issued	Permit Number	Work Permitted	Final Approval
April 2017	201511233400	Main permit to renovate the parking garage	April 2020[9]
August 2019	201908138695	Revised permit 201511233400 to eliminate project scope[10]	N/A
May 2017	E201705255268	Electrical scope of work	April 2020
June 2017	201706028306	Replace sprinklers while full submittals were being approved under permit 201709117661	N/A
September 2017	201709117661	Fire suppression scope of work	July 2018
September 2018	201805219678	Install a backup generator	N/A Project scope reduced to exclude generator installation.
July 2019	20190729963	Plumbing repair work	October 2019
December 2019	201710171502	Fire alarm work	March 2020

Source: DBI permit documentation.

Although we did not examine the details of DBI's inspections of the renovation project work, minutes of the February 2018 PPPC Board meeting indicate that the newly built administrative office did not pass inspection due to issues with the height of the door. Ultimately, the issue was corrected, and in April 2020 DBI granted its final approval of the project. According to DBI, because the project was a renovation and there was no change of use or occupancy, no certificate of occupancy was needed.

According to the PPPC Board, after final inspections were complete, employees in the new administrative office complained and at least one employee filed a workers' compensation claim regarding the floor not being level. As a result, the Board hired another contractor to install platforms under the desks in the office to create a more level floor.

[9] Included Title 24 energy installation, acceptance, verification, and approvals.

[10] Items removed related to installing a backup generator, installing security gates at the main entry of the garage, not infilling the exiting slab opening on the first floor of the garage, and not remodeling the old administrative office.

Lender Inspection Reports Reviewed Provided Limited Information, Although No Quality Issues Were Raised

The lender that financed the project engaged a risk management firm to inspect the project as part of providing recommendations for funding drawdown approval. Although there were nearly 30 drawdowns, we were only provided three “Funds Administration Reports” prepared by the firm following the June, July, and August 2019 inspections. These three reports largely describe the status of funding disbursements against major budget line items—such as architectural and structural, fire sprinklers, electrical, and mechanical—with brief descriptions of work that was in progress or complete at the time of inspection. The reports do not indicate any issues with the quality of work or project schedule. Although the PPPC Board asked the lender to provide other Funds Administration Reports covering additional inspections conducted on the project, the lender would not do so.

Because the agreement that caused these inspection reports to be prepared was between the lender and the risk management firm, it is not clear if the overall objective of the inspections was achieved. The usefulness of the lender’s inspection reports appears to be minimal. In fact, project stakeholders did not appear to consider the inspections to be rigorous and did not believe any adjustments or corrections to project work were made because of the effort.

Section 7. Project Meetings Were Frequent, but the Level of Information Provided at PPPC Board Meetings Appears Insufficient for Adequate Oversight

Project documentation suggests that project participants followed industry best practices and held multiple types of project meetings for communication and coordination of activities and efforts including Project Coordination meetings, Owner/Architect/Contractor meetings, and Renovation Committee meetings. However, the project information provided at PPPC Board meetings appears insufficient for members to have provided adequate oversight.

Section 7 Key Findings:

- Project Coordination Meetings Appropriately Focused on Day-to-Day Construction Schedules and Activities
- Owner/Architect/Contractor Meetings Aligned With Leading Practices, Although Meetings Did Not Continue Through Life of Project as Would Be Expected
- Renovation Committee Meetings Held in Project's Last Year Provided Needed Information for Project Oversight
- Although PPPC Board Received Regular Project Updates, Depth of Information Varied and May Have Been Insufficient to Enable Meaningful Oversight

Project Coordination Meetings Appropriately Focused on Day-to-Day Construction Schedules and Activities

Starting with the first construction manager in April 2017, weekly construction coordination meetings were held and typically involved the construction manager, general contractor, prime contractors, and some members of the Renovation Committee. Although there were some variations in the meeting structure and content given the numerous construction managers working on the project, the meetings were appropriately focused on the day-to-day construction activities of the project, particularly related to the five-week project schedule outlook, status of specific project tasks, related issues or delays, RFIs, and submittals. Additional meetings were held between construction managers and specific contractors when extra support and coordination was needed.

Owner/Architect/Contractor (OAC) Meetings Aligned With Leading Practices, Although Meetings Did Not Continue Through Life of Project as Would Be Expected

Held monthly, OAC meetings were employed to facilitate communication among the project stakeholders. Although Project Coordination meetings focused on coordinating day-to-day construction activities and short-term project schedules, OAC meetings covered a variety of topics, including the overall project schedule, budget, punch lists, inspections, and submittals status, as well as construction activities involving stairs, concrete repairs, and asbestos abatement—in alignment with leading practices in the industry.

The early meetings, starting in July 2017 and continuing through fall 2018, generally included the construction manager, Renovation Committee members, and the project architect. Although representatives from Rec & Park were invited to the initial meetings, it is not clear whether they attended. Starting in fall 2018, when the second construction manager/general contractor began leading the OAC meetings, attendance appeared to only include that firm and the project architect—but not the Renovation Committee, although it is not clear why Renovation Committee members stopped attending the meetings. When the third construction manager/general contractor joined the project in 2019, the OAC meetings were eliminated although the weekly Project Coordination and twice-monthly Renovation Committee meetings continued.

Renovation Committee Meetings Held in Project's Last Year Provided Needed Information for Project Oversight

As mentioned earlier, in 2004 the PPPC Board established a Renovation Committee consisting of three Board members to coordinate efforts associated with the preliminary study of the garage renovation project and to handle lease negotiations with Rec & Park. In 2014, the committee reconvened to assume the role of the project manager and began meeting regularly with the project's professional consultants and/or general contractors. Initially, the meetings were conducted monthly, but meetings were scheduled biweekly as the project progressed. However, the meetings were not formally documented until May 14, 2019, timing that corresponds with the PPPC Board hiring an owner's representative to get the project back on track after construction manager/general contractor turnover and the financial health of the project became problematic.

Based on our review of Renovation Committee meeting minutes prepared until the end of the project in April 2020, the main points of discussion remained consistent and included appropriate information needed to provide project oversight:

Renovation Committee Meeting Typical Points of Discussion	
• Work completed for the period	• Status of nonconforming and rejected work
• Project schedule status	• Applications for payment
• Submittals and change orders	• Financial status of renovation project
• Tests and inspection results	

Source: PPPC Renovation Committee meeting minutes.

The meeting minutes reviewed reflect discussions that were heavily focused on the status of the work completed by each prime contractor, the effort required to complete the remaining work, and potential roadblocks. Bigger picture items were also discussed, such as project-related legal issues. However, because the meeting minutes only cover the final year of the project, the nature of these committee discussions may not be representative of topics covered during the meetings held earlier in the project, which were not formally documented.

Although PPPC Board Received Regular Project Updates, Depth of Information Provided Varied and May Have Been Insufficient to Enable Meaningful Oversight

PPPC Board meetings were held every two months and included discussions of a variety of garage-related topics for typical Board oversight and governance, including updates on the garage's finances, operations, and the renovation project. The minutes covering the public portion of the PPPC Board meetings reflect that the Renovation Committee updates touched on appropriate topics, such as budget overruns and schedule delays, but the level and depth of information provided by the Renovation Committee appears to have been inconsistent across meetings and insufficient to enable the PPPC Board to provide proper oversight. A few examples include:

- October 2016 Board meeting minutes report that a Renovation Committee member met with the construction manager, but do not describe the meeting's purpose or any important details about its results.

- Conversely, February 2018 Board meeting minutes include more detail, which would enable the PPPC Board to provide proper oversight, including:

Project Issues Listed in February 2018 Board Meeting Minutes	
General contractor's employee retention issues were causing delays.	Administrative office did not pass inspection due to issues with height of door.
Architect did not prepare drawings properly, did not adequately convey to contractors what needed to be done, or confirm it had skillset needed to complete the job.	Health concerns due to potential hazards stemming from removed walls that contractor failed to close.
CO^2 alarm was frequently triggered due to limited ventilation.	

  The minutes indicate the PPPC Board's corporate manager expressed frustration with "delays and unprofessional manner with how issues were addressed." The meeting minutes do not reflect that the Board provided any direction at that time regarding the reported issues, only restating that the Renovation Committee chair was tasked as the decision maker for the renovation project and the construction manager was taking "a more proactive role as things are not being done properly."

- June 2018 Board meeting minutes indicate the Board passed a motion to reduce project scope after a brief PowerPoint presentation by the Renovation Committee chair regarding the reasons cost reductions were needed.

- August 2018 Board meeting minutes indicate the Renovation Committee chair had made a list of items that would be eliminated or deferred. However, the minutes do not indicate that there were deliberations among Board members regarding the prioritization of eliminating or deferring project scope items. Rather, the discussion seemed one-way, with information going from the Renovation Committee chair to Board members.

- October 2018 Board meeting minutes reflect the arrival of a new construction manager/general contractor, but do not indicate that the first construction manager left the project or how the second one had been selected.

- December 2019 Board meeting minutes indicate the Renovation Committee provided a list of the items that were cut from the project scope and included the cost savings. It is not clear how those items were prioritized for elimination or how much input Board members provided.

Because PPPC Board meetings were only held every other month, one would expect detailed information to be consistently provided to properly inform Board members of the project activity occurring during a two-month span. Detailed committee reports were not typically included in PPPC Board members' meeting packets. Doing so would have been important to keep Board members up to speed on all critical aspects of the project, to trigger discussion and deliberation, and to preserve the information, deliberations, and decisions. Instead, project updates and information appear to have been provided verbally, except for a couple of brief written presentations. It is also unclear whether the information provided to the PPPC Board was insufficient or, rather, that the meeting minutes omit details about the information provided and corresponding discussions. According to the Renovation Committee, preparing detailed reports for the Board would have been impossible given the Committee's lack of resources and staffing.

Related to the executive session portion of the Board meetings, we were provided additional meeting minutes for five PPPC Board meetings. The executive sessions appear to provide some additional detail on certain aspects of the project, including the transition between the first and second construction managers, work quality issues, and pending litigation. However, like the minutes covering the public portion of the PPPC Board meetings, the executive session minutes do not indicate that any member discussions or deliberations occurred. Rather, these sessions appear to mostly inform Board members on certain activities that had already occurred.

Overall, the PPPC Board meeting minutes are insufficient for us to determine with certainty whether the Board was adequately informed on project issues and activities. It is also unclear whether the Board was given sufficient opportunity to provide input. It is impossible to determine whether the Board had adequate information but simply did not provide sufficient oversight or guidance to resolve the project's many issues. Based on our interviews of PPPC Board members, several of them felt uninformed on project activities and decisions were ultimately delegated to the Renovation Committee because the chair, as an architect, had the most relevant experience. However, as mentioned earlier, a formal delegation of authority from the Board to the Renovation Committee was not documented.

Moreover, between August 2013 and December 2020, we noted only ten PPPC Board motions that were voted on related specifically to the garage renovation project, as shown in Exhibit 23. All motions passed unanimously and were focused largely on addressing the financial aspects of the project.

EXHIBIT 23. PPPC BOARD ACTIONS RELATED TO THE GARAGE RENOVATION PROJECT

Date	Approved Motion
January 2014	Finance project with First Republic Bank.
October 2014	Direct Finance Committee and corporate attorney to review final project architect contract with recommendations and approval from Rec & Park.
December 2014	Affirm contract was signed with project architect in November 2014.
April 2016	Agree to borrow $12.5 million to finance project.
June 2016	Agree to borrow $12.5 million to finance project.
December 2016	Direct Renovation Committee chair to review and approve payment for additional work performed by construction manager and project architect if deemed reasonable.
June 2018	Reduce scope of project work and postpone and prioritize remaining scope items to reduce loan amount.
February 2019	Agree to use cash reserves to pay project bills.
April 2019	Authorize specific payments to contractors, professional consultants, and attorneys.
December 2019	Reclassify a payment made to a construction manager.

Source: PPPC Board meeting minutes.

We did not find any motions that addressed other aspects of the project, such as approving the selection of contractors and consultants and related award of contracts or issues related project schedule or what specific priority scope items should be eliminated.

Chapter 2: Rec & Park's Limited Involvement Overseeing Project Was Not Consistent With Its Responsibility as Project Owner of $13 Million Garage Renovation Project

We found that Rec & Park did not take an active role in the $13 million garage renovation project even though it acts as the garage owner on behalf of the City that bears all the financial risk associated with the project's outcome. As the project owner, Rec & Park may assign or delegate certain project activities, such as day-to-day project management, to other parties to do work on its behalf and/or for its benefit. However, a project owner must be sufficiently involved in project oversight to assess whether the other party is successfully fulfilling its duties. Given its limited involvement, it did not fulfill its responsibility to properly oversee the project and left the day-to-day management and oversight of the renovation project to the PPPC Board, whose members are unpaid volunteers with little experience constructing publicly funded capital projects.

Rec & Park Did Not Recognize Its Role as Project Owner on City's Behalf

Although many of the project-specific activities were delegated to a PPPC Board committee and external consultants and contractors, as discussed in Chapter 1, the overall responsibility for the garage renovation project was not formally assigned to any single entity, which was a critical mistake. It is widely considered a best practice on construction projects to first develop a project charter to authorize the project, define objectives, and importantly, ensure stakeholders understand the project team structure and the related roles and responsibilities of the principal participants. This is particularly important for a complex project like the garage renovation, where multiple public and private entities had overlapping interests in the project.

Although a project charter was not developed for the renovation project, we identified the following entities that had a shared interest and involvement in overseeing the garage and benefiting from revenues generated by its operation:

- **Portsmouth Plaza Parking Corporation (PPPC)**—Nonprofit corporation that has a 40-year lease agreement executed in 2011 to use and operate the garage, an important piece of infrastructure for the local community and businesses. The PPPC is overseen by a 12-person, volunteer Board of Directors.
- **City and County of San Francisco (City)**—Sole shareholder of the PPPC.
- **San Francisco Recreation and Park Department (Rec & Park)**—City department that serves as the garage owner, leases the operation of the facility to the PPPC, and receives monthly rental payments based on a percentage share of parking revenue generated by garage operations.
- **San Francisco Municipal Transportation Agency (MTA)**—City department that serves as a subject matter expert regarding garage parking activities, oversees the operations of the garages, including monitoring garage operational revenue and expenses; MTA receives cost recovery payments for these services.

Some project participants were confused about who was the project owner, a role Rec & Park should have fulfilled. While interviewing project stakeholders, including PPPC Board members, Rec & Park management, MTA management, and other project participants, we found confusion among some project stakeholders as to which entity had the overall responsibility as the renovation project owner. The project owner is the party that has the overall authority for the project, is responsible for defining the project's scope and budget, provides funding, and ensures the project is properly executed and delivered.

Ultimately, the City has the overall responsibility for the renovation project. This is because the City owns the garage, is the sole shareholder of the PPPC, and bears all the financial risk associated with the project's outcome. However, as acknowledged by Rec & Park, it acts as the garage owner on the City's behalf. In this capacity, Rec & Park leases the garage (and assigns responsibility for its operations) to the PPPC, provides authoritative direction to the PPPC, receives parking garage revenues generated by garage operations, finances the garage's capital improvements through parking garage revenues, and owns the capital improvements resulting from the renovation project. For these reasons, Rec & Park was and is the project owner and, thus, was inherently responsible to oversee the renovation project on the City's behalf.

Instead, Rec & Park was minimally involved in the project. All evidence suggests that Rec & Park played a very limited role in the project and provided no meaningful oversight, particularly during construction. Although a project manager in Rec & Park's Capital Division was assigned to serve as a liaison between the PPPC Board and the department, Rec & Park's role in the project was described by one project participant as "loose and not defined." According to Rec & Park, as the garage owner, it was involved in arranging financing for the garage renovation in close coordination with (and with guidance from) the Controller's Office. Rec & Park also worked with the PPPC Board to ensure its initial construction contract followed City rules and protocols, efforts that are described in Chapter 1.

Rec & Park's limited involvement also included obtaining approvals for conceptual plans from the Rec & Park Commission. According to previous and current Rec & Park management, the PPPC Board has a history of resisting City oversight involving any aspect of the garage facility and activities. This helps explain—but does not excuse—why Rec & Park allowed its role in the project to be as limited as it was.

According to Rec & Park, it was minimally involved in the renovation project for several reasons. First, according to previous and current Rec & Park management, the PPPC Board has been historically resistant to City oversight involving any aspect of the garage facility and activities. Second, the PPPC Board insisted that it should oversee the project because one of its members was an architect, because the Board represents the community that built the garage, and because Rec & Park does not oversee the day-to-day operations or attend board meetings.

Rec & Park manages other long-term leases that involve renovation projects, but these projects require a different type of oversight. Rec & Park manages many other long-term leases where the lessee is responsible for managing construction processes subject to limited City oversight. Under these other leases, according to Rec & Park, the lessee is responsible for improvements necessary to fulfill the terms of the lease, at the lessee's own expense and risk, and the lessee retains ownership of the improvements for a reasonable length of time, such as 30 years, to allow a reasonable return on its investment.

Unlike the circumstances of the Portsmouth Garage renovation, in a typical tenant-improvement arrangement, because the improvements are financed and owned by the tenant, the City does not retain the risk associated with the projects. Rather, the tenant is the at-risk project owner because it legally owns the improvements, is solely liable for financing the improvements, and benefits from any return on investment. Therefore, for these projects, the extent of Rec & Park's oversight is limited to ensuring that the improvements are consistent with the lease and applicable codes. However, such a management approach that limits Rec & Park's involvement was not appropriate for the Portsmouth Garage renovation project.

The improvements that were made as part of the Portsmouth Garage renovation project are not owned by the PPPC Board, but are owned by Rec & Park and financed through a loan guaranteed by the City with City parking revenues, which are used to repay the loan. As such, unlike tenant improvements typically overseen by Rec & Park for which the tenant retains all risk, the lease between Rec & Park and the PPPC is structured such that the City retains all risk associated with the garage and the renovation project. In this arrangement, Rec & Park is the at-risk project owner. That is, Rec & Park owns the improvements, is solely liable for financing the improvements, and benefits from any return on investment. Because of the risk to the City in this arrangement, far more robust oversight was required for the garage renovation project than the extent that Rec & Park typically provides for long-term tenant improvement projects. However, Rec & Park did not adjust its management approach to fit the circumstances and, thus, did not fulfill its responsibility as the project owner to ensure proper oversight of the garage renovation project.

Rec & Park asserts that it and MTA were jointly responsible for overseeing the project, but there is no documentation to support this. According to Rec & Park, oversight of the garage renovation project was a joint responsibility between Rec & Park and MTA. Specifically, Rec & Park asserts that because MTA is responsible for overseeing City parking operations, Rec & Park had less routine interaction with the PPPC Board or garage management than it would have otherwise. Further, according to Rec & Park, because MTA is the subject matter expert on garage operations and its staff attended some of the PPPC Board's meetings, held six times per year, Rec & Park believed that MTA was positioned to know more about the renovation project than Rec & Park did.

Although the City Charter and Administrative Code authorize and assign certain general responsibilities to MTA related to the operation of City-owned parking garages, neither the Charter nor code designates MTA as the owner, designer, developer, or capital program manager of all City parking garages. In the case of the Portsmouth garage renovation project, MTA's role was limited to the installation of the SKIDATA parking revenue-control system, which is installed at all City-owned parking garages.

If Rec & Park intended MTA to help oversee the renovation project, Rec & Park should have 1) formalized that understanding with MTA in writing with agreed-upon responsibilities specified and 2) realized that MTA was not fulfilling an oversight role on the capital project and initiated some corrective action with MTA to ensure effective project execution and delivery. However, Rec & Park did not do so. Further, MTA stated to us that it would have helped Rec & Park oversee the renovation project had Rec & Park asked it to do so, but Rec & Park did not make such a request.

According to MTA, when it is asked by another City department to provide services outside of normal garage operations, MTA's protocols require a formal memorandum of understanding to delineate responsibilities. This is supported by the fact that Rec & Park, MTA, and the PPPC Board had a written agreement related to a different project, the SKIDATA installation, which occurred at the Portsmouth garage simultaneously with the garage renovation project. However, there was no such agreement between Rec & Park and MTA related to providing oversight on the garage renovation project. Thus, Rec & Park's assertion that MTA shared in the responsibility to oversee the entire garage renovation project is unsupported.

Rec & Park became involved in the project in late 2019, too late to prevent project-related problems from occurring. In mid-2018, after being largely uninvolved throughout most of the project's duration, Rec & Park contacted the PPPC Board. This occurred approximately a year-and-a-half after construction began in early 2017 once concerns had been raised about potential problems with the project. Specifically, the August 2018 PPPC Board meeting minutes include a brief notation indicating that Rec & Park asked the Board to consider options to reduce project costs. However, no information is available to provide details about this request.

A few months later, in December 2018, the PPPC Board asked Rec & Park for assistance with the lender for the renovation. In response, Rec & Park asked the PPPC Board about the status of the renovation project, including the percentage completed and the status of the budget. While the PPPC Board reported this information, it does not appear that Rec & Park verified this. Additionally, it is important to note that the PPPC Board reached out to Rec & Park, not vice versa.

A year later, in late 2019, as renovation activities were winding down, concerns began to emerge about the PPPC Board's ability to afford the project-related loan payments due to the bank and minimum rent payments due to Rec & Park because of 1) reduced parking garage revenues[11] and 2) a pending lawsuit by a contractor on the renovation project that required a large surety bond. This situation prompted Rec & Park to e-mail the PPPC Board to inquire about the status of the project and certain contract disputes, request copies of contracts and bank statements, and ask for details about the amounts expended and projected costs to finish. Thus, Rec & Park only became substantially involved late in the project after red flags were raised indicating potential problems with the garage's ability to generate adequate revenue—much too late to help prevent project-related problems from occurring.

Because Rec & Park adopted a management approach that was incompatible with the role of a project owner, it put an ill-equipped board of volunteers in charge of the $13 million renovation of a City-owned parking garage, resulting in a lack of adequate project oversight, cost overruns, and accountability, as described in detail throughout this report. This situation occurred despite Rec & Park having employees who are construction experts and who had actively managed and overseen other City capital construction projects before and during the garage renovation.

[11] Parking revenues decreased due to several factors, including increased ride-sharing and the loss of many monthly customers due to the ongoing construction in the garage.

As the owner of the garage and the project, Rec & Park was able to assign certain project activities, such as day-to-day project management, to other parties to do work on its behalf and/or for its benefit. However, project owners must stay sufficiently involved in project oversight to assess if those with delegated project management responsibilities are successfully fulfilling those duties and take corrective action if not. Importantly, Rec & Park could not delegate to anyone its ultimate responsibility to ensure proper execution and delivery of the project; that responsibility rested solely with Rec & Park as the project owner.

Rec & Park allowed the PPPC Board to manage the project without the requisite expertise. Rec & Park states that PPPC Board members were adamant that they had the expertise and willingness to manage the garage renovation project. Although the Board previously managed two small garage projects, one a bathroom renovation and the other a cashiering booth, it lacked the resources needed to successfully oversee a large construction project. These resources include capital project policies and procedures, project management tools, and dedicated staffing.

According to the PPPC Board, it consists of unpaid, volunteer members with outside, full-time jobs. The Board oversees an organization, the PPPC, that has only a few employees, and their responsibilities are solely focused on garage operations. The PPPC's employees—including a corporate manager, parking attendants, and administrative staff—were not expected to (and did not) focus on the garage renovation project.

Despite public statements by a PPPC Board member to the contrary, the PPPC Board did not have the requisite expertise to manage a capital improvement project of this scale. Clearly, the PPPC Board was misguided in its attempts to assume the project manager role, as evidenced by its multiple failures in executing the role. As discussed throughout Chapter 1, the PPPC Board struggled to contain project costs, maintain project scope, adhere to schedules, manage multiple consultants and contractors, oversee project activities and work progress, and keep critical project documentation.

Rec & Park could have acted to protect the City's interests. Lastly, although Rec & Park suggests that overseeing the PPPC Board was difficult, as described previously, there were a multitude of actions that Rec & Park could have taken to protect the City's interests during the renovation project. At a minimum, as the project owner, Rec & Park could have formally enlisted the help of MTA as well as the San Francisco Department of Public Works, the City department responsible for construction, maintenance, and repair work on City buildings and infrastructure, to ensure proper project execution and adherence to the City's project management and recordkeeping protocols. Additionally, Rec & Park could have directly contracted with a professional project manager or owners' representative so that the department could have been kept informed of potential problems and proactively taken corrective action.

City Entities Could Not Demonstrate They Fulfilled Key Project-Related Duties Required in Lease

Although it does not specifically assign the overall responsibility for the project to any single entity, the lease between Rec & Park and the PPPC outlines several specific project responsibilities for Rec & Park, MTA, and the PPPC Board. For instance, the lease, Section 8.4, assigns some early project phase shared responsibilities jointly to the City and the PPPC Board, including:

- ✓ Develop a scope of work;

- ✓ Select architectural, engineering and construction contractors; and
- ✓ Develop final construction budget and plans and specifications for permitting.

The lease, Sections 8.1 and 8.4, also assigns additional responsibilities to the City, requiring Rec & Park and MTA to jointly approve in writing plans and budgets, including the:

- ✓ Project budget;
- ✓ Plans and specifications and any material changes;
- ✓ Final construction plans; and
- ✓ Licensed and bonded contractors.

Neither the PPPC Board nor Rec & Park could provide evidence that any of these required responsibilities were fulfilled, apart from Rec & Park helping to obtain approval of the early conceptual plans. There is no evidence that MTA had any role in approving plans or budgets. Also, the Board was not required to obtain Rec & Park approvals to move forward with construction activities. These include the solicitation processes the Board used to select and approve the project's construction manager, architect design professional, and contractors.

MTA was given project responsibilities by the lease, a document it was not asked to sign. Because MTA is not a signatory to the lease, it appears inappropriate that the lease, which is between Rec & Park and the PPPC, assigns MTA renovation project responsibilities, modest though they are. The lease's inclusion of MTA as an entity with project responsibilities adds confusion and raises questions as to whether the duties assigned to MTA are valid or enforceable. Because it was not a signatory to the lease, MTA did not formally accept the duties provided for it in the document, so cannot be held accountable for the renovation project's outcomes or problems. Thus, the City's project responsibilities appear to rest solely with Rec & Park.

The lease does not specifically assign the role of project manager to the PPPC Board. Aside from requiring the PPPC Board to work with the City to secure financing for the project, the lease states only a few tasks or obligations for which the PPPC or its Board was solely responsible. These include:

- Obtaining necessary permits
- Furnishing the City with a set of plans and specifications
- Using a licensed architect to inspect construction activities
- Ensuring subcontractors comply with the City's prevailing wage requirements.[12]

Although the lease limits the PPPC Board's role to fulfilling the listed obligations, Rec & Park gave other responsibilities not delineated in the lease to the PPPC Board, namely those of project oversight and project management. Because the lease does not clearly define the roles and responsibilities for the project, the result was a lack of accountability and difficulty in holding parties responsible.

According to Rec & Park, the PPPC Board violated the terms of the lease by terminating the first construction manager without notifying Rec & Park. Yet, the lease does not specifically require such notification. Rather,

[12] Although the lease states that the PPPC Board is to finance capital improvements, the City was the project's ultimate financier because garage revenues are being used to repay the loan that financed the project.

Section 8.7 of the lease, permits the City to terminate the lease if certain “construction prerequisites” are not met, but none of the prerequisites listed pertain to the failure of the PPPC Board to notify Rec & Park when a professional services contract is terminated. Rec & Park’s statement that the PPPC Board violated the lease when it fired the first construction manager without notifying Rec & Park—apparently implying that this largely caused the renovation project’s failures—misses the point. In fact, the City made multiple missteps and failed to oversee or act at multiple points, which combined to cause the project to be delayed, run overbudget, and not include several originally intended scope features, as discussed throughout this report.

Other sections of the lease give the City the right to terminate the agreement for various reasons, including if a construction completion deadline is not met, but the City did not exercise this right.

Recommendations

To avoid future problems at the Portsmouth Square Garage such as those found by this audit and ensure proper execution and delivery of future capital improvement projects funded by the City, Rec & Park should:

1. Adequately oversee projects undertaken at the Portsmouth Square Garage. Consider formally enlisting the support of other City departments, such as the Municipal Transportation Agency and Department of Public Works, to assist with project oversight including the following:
    a. Develop project charters to clearly identify the roles of all capital improvement project participants.
    b. Ensure project responsibilities are only delegated to those with sufficient expertise, resources, infrastructure, and capacity to properly perform the duties assigned to them.
    c. Ensure each capital improvement project participant formally accept and acknowledge its assigned responsibilities.
    d. Define capital project scope, schedule, and budget in addition to approving changes as appropriate.
    e. Institute procedures to ensure lessees cannot enter into project contracts unless Rec & Park has verified that required elements are included and the City’s interests are adequately protected.
2. Conduct a post-mortem evaluation of its approach to overseeing the PPPC Board’s management of the renovation project. That is, consider whether the approach used is indicative of how the PPPC Board’s compliance with other provisions of the lease agreement is monitored. Identify lessons learned that can be applied to the department’s monitoring of all PPPC activities undertaken pursuant to the lease agreement and whether any adjustments are required, including whether the PPPC Board should be permitted to manage renovation projects at the garage in the future.

Appendix A: Recreation and Park Department Response

SAN FRANCISCO RECREATION & PARKS

London N. Breed, Mayor
Philip A. Ginsburg, General Manager

July 5, 2022

Mark de la Rosa
Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Recreation & Park Department Response to the Audit Report: ***The Portsmouth Plaza Parking Corporation Board Was Not Equipped to Effectively Manage the Portsmouth Plaza Parking Garage Renovation Project and the Recreation and Park Department Did Not Adequately Monitor the Project as the Project Owner***

Dear Mr. de la Rosa,

Thank you for the opportunity to review and respond to the audit report prepared by the Controller's Office's City Services Auditor with Sjoberg Evashenk Consulting, Inc. regarding the recent renovation project at the Portsmouth Square Garage.

We concur with the report's two recommendations. The San Francisco Recreation & Park Department is committed to improving the oversight of the Portsmouth Plaza Parking Corporation (PPPC) and has already implemented the recommendations in the report. Portsmouth Plaza Parking Corporation will no longer manage capital projects and will no longer be able to enter contracts without our consent.

Sincerely,

Philip A. Ginsburg
General Manager

cc: Winnie Woo, City Services Auditor, Office of the Controller
Antonio Guerra, Director of Administration and Finance, Recreation and Park Department
Sarah Madland, Director of Policy and Public Affairs, Recreation and Park Department
Stacy Bradley, Director of Capital and Planning, Recreation and Park Department
Dana Ketcham, Director of Property Management, Permits and Reservations, Recreation and Park Department
Cara Ruppert, Project Manager, Recreation and Park Department

McLaren Lodge in Golden Gate Park | 501 Stanyan Street | San Francisco, CA 94117 | PHONE: (415) 831-2700 | WEB: sfrecpark.org

Recommendations and Responses

For each recommendation, the responsible agency should indicate in the column labeled ***Agency Response*** whether it concurs, does not concur, or partially concurs and provide a brief explanation. If it concurs with the recommendation, it should indicate the expected implementation date and implementation plan. If the responsible agency does not concur or partially concurs, it should provide an explanation and an alternate plan of action to address the identified issue.

Recommendation	Agency Response	CSA Use Only Status Determination*
To avoid future problems at the Portsmouth Square Garage such as those found by this audit and ensure proper execution and delivery of future capital improvement projects funded by the City, Rec & Park should:		
1. Adequately oversee projects undertaken at the Portsmouth Square Garage. Consider formally enlisting the support of other City departments, such as the Municipal Transportation Agency and Department of Public Works, to assist with project oversight including the following: a. Develop project charters to clearly identify the roles of all capital improvement project participants. b. Ensure project responsibilities are only delegated to those with sufficient expertise, resources, infrastructure, and capacity to properly perform the duties assigned to them. c. Ensure each capital improvement project participant formally accept and acknowledge its assigned responsibilities. d. Define capital project scope, schedule, and budget in addition to approving changes as appropriate. e. Institute procedures to ensure lessees cannot enter into project contracts unless the Rec & Park has verified that required elements are included and the City's interests are adequately protected.	☒ Concur ☐ Do Not Concur ☐ Partially Concur The San Francisco Recreation & Park Department is committed to improving the oversight of the Portsmouth Plaza Parking Corporation (PPPC) and has already implemented the recommendations in the report. Portsmouth Plaza Parking Corporation will no longer manage capital projects and will no longer be able to enter contracts without our consent.	☒ Open ☐ Closed ☐ Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Recommendation	Agency Response	CSA Use Only Status Determination*
2. Conduct a post-mortem evaluation of its approach to overseeing the Portsmouth Plaza Parking Corporation (PPPC) Board's management of the renovation project. That is, consider whether the approach used is indicative of how the PPPC Board's compliance with other provisions of the lease agreement is monitored. Identify lessons learned that can be applied to the department's monitoring of all PPPC activities undertaken pursuant to the lease agreement and whether any adjustments are required, including whether the PPPC Board should be permitted to manage renovation projects at the garage in the future.	☒ Concur ☐ Do Not Concur ☐ Partially Concur The San Francisco Recreation & Park Department is committed to improving the oversight of the Portsmouth Plaza Parking Corporation (PPPC) and has already implemented the recommendations in the report. Portsmouth Plaza Parking Corporation will no longer manage capital projects and will no longer be able to enter contracts without our consent.	☒ Open ☐ Closed ☐ Contested

* Status Determination based on audit team's review of the agency's response and proposed corrective action.

Appendix B: Portsmouth Plaza Parking Corporation Board Response

PORTSMOUTH SQUARE
GARAGE
花園角停車場

June 29, 2022

Mark de la Rosa
Director of Audits
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: Performance Audit of the Portsmouth Square Parking Garage Renovation Project

Dear Mr. de la Rosa:

Thank you for the opportunity to review the draft performance audit report prepared by Sjoberg Evashenk Consulting, Inc. On behalf of the Portsmouth Plaza Parking Corporation's Board of Directors, I hereby submit the following comments to the draft report's two major findings as described in the Executive Summary:

1) The PPPC Board was ill-equipped to effectively manage the renovation project, causing it to be $4.5 million (52 percent) over-budget, completed a year late, and missing at least $1 million worth of planned work;

Board Comments:
Included in the $1.6 million of "unbudgeted items", was replacement of the Revenue Control Equipment which was required by SFMTA.

Regarding the late start of construction activities, it was not delayed intentionally. It was governed by the time necessary to secure financing from the bank and to retain a team of qualified designers and professionals to prepare and obtain the building permits.

2) As the project owner, Rec & Park was responsible to oversee the garage renovation project on the City's behalf, a responsibility that cannot be delegated; however, it did not take necessary steps to ensure the project was properly executed and must better oversee any similar project in the future.

Board Comments:
There were several references in the draft report stating that "according to previous and current Rec & Park management, the PPPC Board has a history of resisting City oversight involving any aspect of the garage facility and activities." The Board finds this statement inaccurate, false, misleading, and without merit. The PPPC Board has been cooperative with

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Rec & Park management and Rec & Park has not provided any substantive evidence citing the contrary. Rec & Park has authority under the lease agreement and in the event, there is ever any resistance, Rec & Park can assert their authority to oversee all aspects of the garage facility and activities.

The PPPC Board agrees that a post-mortem evaluation is important. We feel that such an evaluation should be conducted in partnership with Rec & Park to determine how future capital improvement projects can be managed and monitored better by both parties. The PPPC Board looks forward to our continued collaboration with Rec & Park management.

Finally, the PPPC Board appreciates that the draft report acknowledged the fact that our Board is comprised of unpaid community members who serve as volunteers, most of whom have full-time jobs, who have little experience constructing publicly-funded capital projects. We do this work for the love of our Chinatown community and because the Portsmouth Square Garage remains a beloved community institution in our community.

Please let me know if you have any questions. Thank you!

Sincerely,

Nancy L. Yee

Nancy Lim-Yee, Chair
Audit Ad-Hoc Committee
Vice-President, PPPC Board of Directors

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