

OFFICE OF THE CITY CONTROLLER  
AUDIT DIVISION



901 Bagby, 9<sup>th</sup> Floor  
Houston, TX 77002



1001 Fannin Street, Suite 600  
Houston, TX 77002

**REPORT NO. 2011-04**

**CITY OF HOUSTON – HOUSTON AIRPORT SYSTEM**  
**Construction Contract Performance Audit of**

**Project 417F Phase 1 – New East Concourse,  
West Office Building and Main Terminal Expansion at  
William P. Hobby Airport  
Houston, Texas**

**April 13, 2011**



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

RONALD C. GREEN

April 26, 2011

The Honorable Annise D. Parker, Mayor  
City of Houston, Texas

**SUBJECT: 2011-04 Houston Airport Systems (HAS) Construction Contract  
Performance Audit of Project 417F – Phase 1**

Mayor Parker:

The Controller's Office, along with the contracted professional services of Jefferson, Wells, Inc., has completed a Construction Contract Performance Audit of Project 417F – Phase 1 – New East Concourse, West Office Building, and Main Terminal Expansion at William H. Hobby Airport, Houston, Texas. Clark Construction was selected as the Prime Contractor (Construction Manager at Risk – CMAR) for a major portion of the total expansion project with \$68.5 Million defined as Phase 1 (which was included in the scope of our audit).

The **primary** objectives of this audit were to determine that:

- Costs charged to the Project by Clark are in accordance with the terms and conditions of the Agreement, including labor, materials, equipment, equipment rentals, disposable tools and overhead costs represented value received and were justifiably charged to the Project;
- Payments made to Clark agree to amounts billed to the City, are timely, adequately supported, and do not contain overpayments and/or overcharges; and
- Work performed was in accordance with contract stipulations and specifications.

There were several **significant** issues identified throughout the audit that are outlined in the attached report, some of which I would like to highlight in this transmittal as follows:

- There was **\$1.4 Million** in Potential Recoverable: Overcharges and/or Unsupported Costs to which the City is entitled, (approximately \$750,000 is currently agreed to by HAS and over \$500,000 exists as retainage for Phase 1);
- The CMAR **did not** provide full or timely responses to information requests necessary for fieldwork testing, which created delays and modification to audit scope and objectives;
- During the final reporting phase, the CMAR forwarded a significant amount of untimely and extraneous information that was not sufficient as a response, nor relevant to the final report. *Therefore, we are not including it in this distribution, however, it is available upon request,*<sup>1</sup>
- HAS, with enforcement rights as owners of the Contract, changed their position regarding access to approximately 10% (\$6 Million) of supporting information; and
- The Legal Department negotiated significant terms to this contract which were not documented, supported, nor formally disclosed. This contributed to the Scope Limitation referenced above.

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<sup>1</sup> Under Generally Accepted Government Auditing Standards **8.33**, "Auditors should include in their report a copy of the written comments, **or a summary of the comments received.**" **8.34** states "**Auditors should also include in the report an evaluation of the comments, as appropriate.**"



OFFICE OF THE CITY CONTROLLER  
CITY OF HOUSTON  
TEXAS

RONALD C. GREEN

While this project contained several challenges, we would like to express our appreciation to those parties at HAS, the CMAR, the Legal Department, and your office for cooperation.

Respectfully submitted,

Ronald C. Green  
City Controller  
Houston, Texas

xc: City Council Members  
Andy Icken, Mayor's Office  
Mario Diaz, Director, Houston Airport Systems  
David Schroeder, City Auditor



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## EXECUTIVE SUMMARY

### Background

The Office of the City Controller's Audit Division and Jefferson Wells jointly conducted a construction contract performance audit for the City of Houston ("COH" or "the City") Houston Airport System's ("HAS's") Project 417F Phase 1 – New East Concourse, West Office Building, and Main Terminal Expansion at William P. Hobby Airport ("the Project").

The City entered into a Construction Manager at Risk Agreement ("CMAR Agreement" or "Agreement") with Clark Construction Group – Texas, L.P. ("Clark") dated September 29, 2005 for the execution of the Project.

The Agreement is a Cost of the Work plus Fee Contract with a Guaranteed Maximum Price ("GMP"). The agreed upon CMAR construction phase fee is 5% of Cost of the Work (except pass through Allowances). The 5% fee was to include all profit and overhead items, specifically excluding salaried workers directly assigned to the Project. Clark has billed \$68,517,979 through Application for Payment #61 for Project 417F Phase 1.

Per that application for payment the total completed and stored to date is \$68,517,979 which equals the revised GMP. As of the completion of our fieldwork in November 2010, Clark had received payments totaling \$67,951,343 with unpaid retainage of \$566,636 outstanding against their billings. The Project was reported as 100% complete by Clark based on the cost of work completed through June 30, 2010.

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### Audit Objectives

The primary objectives of this audit were to determine that:

1. Costs charged to the Project by Clark are in accordance with the terms and conditions of the Agreement, including labor, materials, equipment, equipment rentals, disposable tools and overhead costs were for value received and were justifiably charged to the Project;
  2. Payments made to Clark agree to amounts billed to the City, are timely, adequately supported, and do not contain overpayments and/or overcharges;
  3. Change Orders, including back-charges, were reasonable, accurate and contained the required supporting documentation;
  4. Work performed was in accordance with contract stipulations and specifications; and
  5. Clark utilized competitive bidding to secure major purchases of materials and services, or subcontracts, and buy-outs were accomplished and valued fairly.
-



## Scope

The scope of this closeout construction audit was the Contract Price (GMP) through Application for Payment #61 and costs recorded in Clark's Job Cost Ledger through June 30, 2010 as outlined below:

### Project Timeline

The Project construction duration was originally established at approximately three years covering three stages of work. A subsequent amendment and two change orders added approximately one year to the original project timeline with a planned substantial completion in July 2009.

TABLE 1 - Project Value	
Phase 1 Pre-Construction Services per Amendment No. 1	\$ 2,319,702
Ph. 1 Const. Services & Ph. 2 Pre-Const. Services (GMP) per Amendment No.1	\$ 55,998,637
Amendment No. 2	\$ 12,900,000
Change Order No. 1	\$ 1,299,586
Change Order No. 2	\$ 619,736
Amended Contract Price (GMP)	\$ 73,137,661
Budget Shift from Phase 1 to Phase 2 as agreed by HAS & Clark	\$ (4,619,682)
Contract Price (GMP) at 01/31/10 (Application for Payment # 61)	\$ 68,517,979

## Audit Procedures Performed

- Examined billings and conducted tests of those costs;
- Tested and evaluated the two change orders for this phase of the Project for reasonableness and accuracy of underlying costs;
- Tested and evaluated significant change orders between Clark and its subcontractors, with emphasis on reasonableness and accuracy of underlying costs;
- Performed interviews and obtained information to gain a sufficient understanding of the Internal Controls and identify deficiencies in design or performance;
- Considered potential fraud, waste, and/or abuse indicators and modified procedures as required; and
- Confirmed that payments made by the City to Clark were recorded in the City's records and that Clark gave proper credit for those payments in its monthly payment applications.

## Scope Limitation\*

Articles 7 and 8 of the Agreement ("Payments to Construction Manager" and "Cost of the Work") define Fees, Audit Rights and Cost of the Work. By contract definition, Cost of the Work should not contain profit or other items covered by the Fee portion of the Agreement. Clark refused to provide actual cost information requested for Salaried Employees and HAS supported this by not enforcing the contract terms referenced above. Together, these factors resulted in an impairment to scope that prevented the Audit Team from verifying the actual costs of the Salaried Employees assigned to the Project (\$6.3 Million or approximately 10% of the overall scope in dollars). Thus, the Audit Team limited their testing to a comparison of the rates billed to the Salaried Rate Schedule provided from the Agreement (**Audit Objectives 1, 2 and 4**).

\* For Additional Comments regarding the Scope Limitation, see page 7.



## Summary Conclusions, Significant Issues, Recommendations, and Management Responses

### Conclusion 1

We noted control weaknesses related to compliance with the Agreement that resulted in potential overcharges, potential recoverable unsupported costs, and related-party transactions that totaled \$1,442,655 on the applications for payment issued by Clark to HAS. (**Audit Objectives 1 and 2**).

TABLE 2 - Total Potential Recoveries			
Description	Amount	CMAR Fee	Total
Section 1 - Potential Overcharges	\$ 816,387	\$ 40,819	\$ 857,206
Section 2 - Potential Recoverable Unsupported Costs	446,038	22,302	468,340
Subtotal	1,262,425	63,121	1,325,546
Section 3 - Related Party Transactions	117,109	-0-	117,109
<b>Total Potential Recoveries</b>	<b>\$ 1,379,534</b>	<b>\$ 63,121</b>	<b>\$ 1,442,655</b>

#### Potential Overcharges

Potential overcharges of **\$857,206 (including the 5.00% Construction Phase fee of \$40,819)** shown in TABLE 2 are described in detail in *Exhibit 1 – Detailed Findings Log, Section 1* of this report.

#### The significant issues include:

- A comparison of salary rates billed to the rate schedules in the CMAR Agreement for \$2,486,005 of the salaried payroll expenses showed that HAS was overcharged \$181,299 (7.29%). By extrapolating the 7.29% to the total salaried expenses billed (approximately \$6.3 Million), we determined that HAS was overcharged by **\$460,074 (Finding 1)**;
- Clark did not provide any supporting documentation for journal entries related to **\$150,277** of insurance costs in the Job Cost Ledger (**Findings 10 through 17**); and
- Costs billed through Application for Payment #61 were **\$78,630** greater than costs recorded in the job cost ledger through June 30, 2010 (**Finding 3**).



### **Potential Recoverable Unsupported Costs (PRU)**

Potential Recoverable Unsupported costs of **\$468,340 (including the 5.00% Construction Phase fee of \$22,302)** shown in TABLE 2 are described in detail in *Exhibit 1 – Detailed Findings Log, Section 2* of this report.

#### **The significant issues include:**

- Clark did not provide support for the rates used in the calculation of excess liability insurance costs totaling **\$376,334** which were charged to the project (**Finding PRU2**); and
- Clark did not provide support for hourly labor Workers' Compensation burden costs (rates from the Workers' Compensation insurance policies). The burden rate for Workers' Compensation charged based on our sample was 10.1% of the hourly labor cost. Applying the 10.1% rate to the total hourly labor cost recorded on the Project resulted in an unsupported Workers' Compensation burden for hourly employees of **\$41,060 (Finding PRU1)**.

### **Related Party Transactions (RP)**

Related-Party transactions of **\$117,109** shown in TABLE 2 are described in detail in *Exhibit 1 – Detailed Findings Log, Section 3* of this report.

#### **The significant issues include:**

- Rent totaling **\$73,125** that paid for the lease of a condominium in Houston was leased for **and** owned by a Clark Construction Group Project Executive (**Finding RP1**); and
- The sale of a Caterpillar Skid Steer Loader for **\$30,000** from an entity that appeared to be beneficially controlled by a Clark Construction Group Project Executive to the Project (**Finding RP2**).

### **Recommendation 1**

- Clark should refund overcharges and unsupported costs.
- HAS should seek to recover the amounts identified and institute an audit process of applications for payment for large long-term contracts.

### **HAS Management Response to Conclusion/Recommendation 1<sup>♦</sup>**

*“Some of the costs referenced in the findings supporting Recommendation 1 we can agree to and the contractor has already signaled it will reimburse. In particular, we agree with the finding that payment of any escalation rates under the agreement were not permitted and should be reimbursed.”*

### **Assessment of Management Response to Conclusion 1**

We recognize that the management response provided above represents concurrence with approximately \$750,000 out of \$1.4 Million in recoveries as shown in Exhibit 1 – Summary Table.

<sup>♦</sup> HAS Management Responses embedded throughout the Executive Summary are from the Director of HAS (See Exhibit 2). NOTE: For individual responses to each item/finding provided by the CMAR (Clark), HAS, and the Audit Division, see Exhibit 1 – Detail Findings Log.





## Conclusion 2

Procedures for obtaining quotes for subcontract change orders and changes to salaried personnel were not in compliance with the requirements of the Agreement and in several cases, were not supported with required hardcopy documentation (**Audit Objectives 1, 2, 3, and 4**).

### Unsupported Costs (U)

Clark's applications for payment within the scope of our audit include unsupported costs of **\$7,965,792**, which are described in detail in Exhibit 1 – Detailed Findings Log, Section 4 of this report.

#### The significant issues include:

- Inadequate supporting documentation for change orders between Clark and its various subcontractors totaling **\$3,917,077**. In most instances, the inadequate supporting documentation was related to lump-sum pricing for various change orders in lieu of detailed cost breakdowns as required by the change order provisions of the CMAR Agreement (**Finding U1**);
- No supporting documentation on file for **\$1,531,583** of subcontractor change order value (**Finding U1**); and
- Unsupported salary charges of **\$2,242,709** for Clark salaried employees not listed on Exhibit "6" of the Agreement, but charged to the Project. Our testing revealed that only twenty (20) of the sixty-one (61) salaried employees charged to job cost are listed on Exhibit "6" as approved to charge to the Project. Based on our testing, 35.55% of the total amount charged to the Project for salaried labor cost was paid to employees not listed on Exhibit "6" (**Finding U4**).

## Recommendation 2

- Clark should retain necessary documentation to adequately support all changes to the Agreement, such as revisions to the salary rate schedules, and supporting documentation for change orders to subcontracts.
- HAS should implement procedures to monitor adherence to the change order process by its contractors, and should formally approve any changes in salaried contractor employees and rates listed in a rate schedule included as an exhibit to the Agreement.

## HAS Management Response to Conclusion/Recommendation 2

*"We accept the conclusions and recommendations of Recommendation 2, and as cited in our response to Recommendation 1 above, we are in the process of bringing on board a program management consultant who will initiate any required systems, processes and procedures, and provide training and expert personnel in the management of complex constructions management agreements."*

## Assessment of Management Response to Conclusion 2

The management response broadly addresses the issues identified; however, clarification is needed to identify a realistic and accountable implementation. The information "systems" being considered as referred to in the above management response and in the corresponding Section in Exhibit 1 should not be intended to replace the responsibility of the Contractor's requirement to maintain full, detailed books and records, with adequate supporting documentation.



### Conclusion 3

There were timing issues related to billing and payment, bidding deficiencies, and other procedural problems related to internal controls and contract compliance (**Audit Objectives 2, 4, and 5**).

#### **Procedural Issues**

Those issues and other areas of concern and opportunities for improvement are described in detail in Exhibit 1 – Detailed Findings Log, Section 5 of this report.

#### **The significant issues include:**

- Clark's billed costs unreasonably exceeded their cumulative recorded costs on applications for payment covering a significant portion of the Project timeline. Beginning with Application for Payment No. 6 for services through February 28, 2006 the cost invoiced by Clark exceeded the cost recorded on their job cost ledger by over **\$1,000,000** when comparing total billed cost to date (excluding the Construction Phase fee) with total job cost recorded to date. That trend of overbilling continued through Application for Payment No. 42 for services through May 31, 2009. Many of the months had overbillings of over **\$2,000,000** to-date with a high overbilling to date of over **\$4,000,000** on Application for Payment No. 30 at February 29, 2008 (**Finding A**).
- Bidding deficiencies such as single-source bids, lack of bid evaluation/tabulation sheets, or lack of explanations why the successful bidders were chosen were noted in our review of the subcontract work packages for the following work scopes: Electrical, Sitework, Mechanical, Cast-in-Place Concrete, Structural Steel, Miscellaneous Metals and Precast Concrete Panels, Site Utilities, Ornamental Metals, Demolition and Abatement, Drywall, and Masonry (**Findings C through M**).

### Recommendation 3

- Clark should provide a reconciliation of billed versus incurred (recorded) costs to show and validate a reasonable variance due to timing, and they should retain and maintain complete records of all sub-contractor bidding activity.
- HAS should institute specific procedures to monitor progress of long-term construction projects to include periodic reconciliations of actual costs incurred to billed costs. Additionally, HAS should formalize its monitoring of contractor document retention procedures on future projects.

### HAS Management Response to Conclusion/Recommendation 3

*"We agree with Recommendation 3, and will instruct Clark to provide the information. Once on board, we will ask the program management consultant to perform an updated review of all documentation we have right to receive under the contract and assure that it is fully reconciled"*

### Assessment of Management Response to Conclusion 3

The management response generally addresses several issues identified in Conclusion 3, however, it does not provide a resolution to the specific concern of the timing of billings related to incurred costs and periodic financial analysis.



## Additional Comments Regarding Scope Limitation

### HAS Management's Comment on Scope Limitation

*"We agree that lump sum work should not find a place in services rendered under maximum cost, unit price construction management agreements, except for extenuating circumstances that are properly documented. This will be the policy of the HAS for all future agreements of this kind. We are in the process of bringing on board a program management consultant, who will institute any required systems, processes and procedures, and provide training and expert personnel in the management of complex construction management agreements so that we may avoid the problems encountered on this project.*

*However there is a clear and unfortunate difference of opinion concerning the City's audit rights of salary costs. I have been advised that the scope of the work included certain tasks that would be completed on a lump sum basis in order to reduce the complexity of the agreement, this being the first Maximum Cost, Unit Price Construction Management contract undertaken by the City. The salaries reviewed by the auditor were, I am told, negotiated and agreed to as lump sum amounts. I am further advised, "The Cost of the Work for salaried employees is negotiated and defined within the four corners of the contract, regardless of what individual cost elements may have been considered in calculating those rates. Arguably, it simply doesn't matter what those individual cost elements are because there was a meeting of the minds as to the "actual cost of those employees for purposes of the contract." In consideration of these facts, I cannot at this time support the conclusion or recommendation that the HAS attempt to compel the contractor to tender salary cost documentation."*

### Assessment of Management Comments on Scope Limitation

- In the first part of the comments offered by HAS management, we note their commitment to the elimination of ambiguous contract language that compromises protection of the City's interests.
- In assessing the second part of the response, the Scope Limitation noted earlier does not offer a conclusion nor a recommendation. It reports denied access of requested information, which was specifically related to an agreed upon audit objective within the context of the construction agreement.\*

The root concern outlined in the Scope Limitation was first identified in the initial stages of the audit (June, 2010). Specifically, we conducted an audit planning meeting with HAS Project Management on July 1, 2010. During this meeting, a specific question about the Salaried Rate Schedule was asked in seeking HAS position (as owners of the contract) whether the components of the underlying actual costs were subject to audit. The HAS Project Management Team needed to verify with the original negotiating representatives of the Agreement. A correspondence from HAS dated July 9, 2010 confirmed the Salaried rates were subject to Article VIII 8.01(a)(1) Labor; "...Construction Manager shall provide certified payrolls and any other documentation requested by City to verify wages and hours." September, 2010, HAS changed their position on this issue in support/agreement with the contractor.

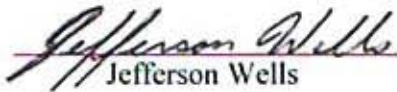
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\* Generally Accepted Government Auditing Standards Section 8.11 states "Auditors should describe the scope of the work performed **and any limitations**, including issues that would be relevant to likely users, so that they could reasonably interpret the findings, conclusions, and recommendations in the report without being misled. **Auditors should also report any significant constraints imposed on the audit approach by information limitations or scope impairments, including denials of access to certain records or individuals.**" (emphasis added)




*Jefferson Wells is not a public accounting firm and does not provide attest services or otherwise report on financial statements. The procedures we performed were in accordance with International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. This report is intended solely for the use of the City of Houston's internal management and is not intended to be, and should not be, provided to or used by any other parties without the prior written consent of Jefferson Wells.*

Respectfully Submitted,

  
Jefferson Wells


4/13/2011  
Date

The Audit Division within the Office of the City Controller, executed procedures in adherence to the Generally Accepted Government Auditing Standards issued by the Government Accountability Office and the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. The engagement was performed as a co-sourced project involving both Jefferson Wells and the City of Houston.

  
David Schroeder  
City Auditor  
Houston, TX



04/13/2011  
Date

  
Linda McDonald  
Audit Supervisor  
Houston, TX

4/13/11  
Date



# EXHIBIT 1

**EXHIBIT 1 - SUMMARY TABLE OF DETAILED FINDINGS LOG**  
**Jefferson Wells and City of Houston**  
**City of Houston - Houston Airport System (HAS) - Project 417F - Phase 1**  
**Construction Manager at Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

**Total Potential Recoveries (Sections 1-4 as of the Report Date)**

Section	Per Audit Team	Per Clark	Per HAS
<b>Section 1 Potential Overcharges</b>	Potential Recovery (with Fee) \$857,206	Agreed Recovery (with Fee) See <u>Note1</u> \$50,372	Agreed Recovery (with Fee) \$623,830
<b>Section 2 Potential Recoverable Unsupported Costs</b>	Potential Recovery (with Fee) \$468,340	Agreed Recovery \$0	Agreed Recovery \$0
<b>Section 3 Related Party Transactions</b>	Potential Recovery (No Fee) \$117,109	Agreed Recovery (No Fee) \$117,109	Agreed Recovery (No Fee) \$117,109
<b>Section 4 Unsupported Costs (See <u>Note 2</u>)</b>	Potential Recovery Unknown	Agreed Recovery (No Fee) \$7,428	Agreed Recovery (No Fee) \$7,428
<b>Total Potential Recoveries</b>	<b>\$1,442,655</b>	<b>\$174,909</b>	<b>\$748,367</b>
<b>Total Contract Billings</b>	\$68,517,979	\$68,517,979	\$68,517,979
<b>Potential Overcharges as a percent (%) of Billings</b>	2.11%	0.26%	1.09%

**Other Issues (Sections 5 & 6)**

<b>Section 5 Procedural Issues</b>	Number of Issues Identified = 17	See Details in Section 5
<b>Section 6 Assets Purchased</b>	(a) Number of Asset Purchases to be Refunded/Transferred = 8; (b) Cost of Asset Purchases to be Refunded/Transferred = \$46,625	See Details in Section 6

**Note 1** This was the Total amount provided by Clark as the Credit due associated with Section 1, however, this does not match the total of the individual items agreed to in that Section, which equals, \$56,732

**Note 2** Total Unsupported Costs equal \$7,965,792, which may or may not include potentially recoverable items.



## EXHIBIT 1

### SECTION 1 – POTENTIAL OVERCHARGES

April 13, 2011

NOTE: All responses from Clark and HAS are presented exactly as provided and have not been edited for content, spelling, etc.

**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses	
Item	Name	Observation	Amount	Background/Recommendation	Clark Response		HAS Responses
1	<b>Overstated Salaried Labor Costs</b>	Salary rates billed differ from the rate schedules in the contract. An initial request to review and test actual salary labor and burden costs for salary costs recorded in the job cost ledger was denied by Clark. The Audit Team requested HAS to intervene and persuade Clark to provide such documentation, however, HAS was not successful. Total salaried payroll for the time period tested totaled \$6,708,116, which is approximately 10% of total job costs billed. Alternatively, we tested the rates to the rate schedules in the contract for \$2,486,005 (excludes Phase 1 preconstruction) of the salaried payroll expenses and determined that HAS was overcharged \$181,299 (7.29%). Using the 7.29% extrapolated to the total salaried expenses (excluding Phase 1 preconstruction), HAS was overcharged \$460,073.69.	\$ 460,073.69	The CMAR Agreement in Article 8.01 (a) 2 Cost of the Work states that "reasonable and customary wages or salaries of Construction manager's supervisory and administrative personnel who are identified on Exhibit "C" but only for documented time when directly involved in performance of the work". Exhibit "C" identifies personnel, staff, subconsultants and duties for Phase 1 Preconstruction Services, their weekly rate and expected time to complete Phase 1 Preconstruction. Amendment 1 expanded the project to include Phase 1 Construction Services and Phase 2 Preconstruction Services. Exhibit "6" in Amendment 2 identifies personnel, staff, subconsultants and duties for all 3 phases of construction services, their weekly rate and expected time to complete the 3 Service phases. These are the only rate schedules included in the contract; no revised or updated rate exhibits were included in the contract documents nor was there any clause in the contract that provided for annual rate escalation. HAS should request a credit for this amount from Clark.	See attached responses and 6 backup attachments.	The Contract (Article 7.09) gives the City the right to audit anything related to the project. Article 8.01(a)(2) and Exhibit C establish the cost of the work for administrative and supervisory personnel. HAS does not have access to the comparisons referenced by the auditor therefore we don't know whether the differences mentioned can be explained by the changes in rates in Amendments 1 and 2 or whether they are associated with the escalation that Clark maintains is reasonable and customary practice. Without the sample comparisons, we can not evaluate whether the comparisons are appropriate and have been applied appropriately. With respect to Clark's claim that escalation is reasonable and customary practice, HAS agrees that escalation is reasonable and customary for long-term projects; however, it is also reasonable and customary that an escalation provision be expressly set forth in an agreement which typically will include a maximum percentage increase tied to a recognized index. This contract contained no such escalation provision and thus there is no contractual basis to pay Clark an escalation.	Changes to the rate schedules should be supported by an amendment to the contract/agreement, which was not provided. Therefore, the rate schedule as in the agreement should stand and the credit should be due. NOTE: Clark's response and attachments were too voluminous and are unrelated to the issue identified - They are available upon request, but are not included in this Report because they would dilute the facts and confuse the issue. This decision is consistent with Generally Accepted Government Auditing Standards Section 8.33.
2	<b>Overstated Hourly Labor Burden Costs</b>	Hourly Labor Burden is overstated because several hourly employees did not participate in the medical insurance plan or vacation plan. In addition, burden costs for all hourly employees are overstated by Field Flat Burden (bonuses based on annual bonus for entire company) and Training Burden. Based on our sample, we calculate the burden rate was overstated by 7.6%. Based on labor costs totaling \$406,533.76 recorded in the job cost ledger, the burden overcharge is estimated to be \$30,896.57.	\$ 30,896.57	The CMAR Agreement in Article 8.01 (a)(3) Cost of the Work states that "Costs paid or incurred by the Construction Manager for labor costs arising out of taxes, insurance, and benefits which are (i) required by law, (ii) required by collective bargaining agreements, (iii) or otherwise customary". HAS should request a credit for this amount from Clark.	Hourly labor burden is not overstated, thus is not an overcharge. Burden, or non-productive cost for field labor, does not post in the cost report as they are covered in the flat burden rate. This was explained during the audit and the attached report of non-productive time was provided.	HAS has previously requested but has not been provided with copies of either the auditor's nor Clark's buildup of the Field Flat Burden rate and can not evaluate the differences that may exist or whether these differences should be included in the cost of the work. HAS will continue to evaluate based on any new information received.	The schedule provided did not address inappropriate bonuses and training allocated as burden. Additionally, nothing provided to date addressed the non-participating employees in the medical insurance and/or vacation plan. HAS never asked for any documentation to support any of our calculation.

April 13, 2011

NOTE: All responses from Clark and HAS are presented exactly as provided and have not been edited for content, spelling, etc.



**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	Observation	FINDING		RESPONSES		Audit Division Assessment of Responses
			Amount	Background/Recommendation	Clark Response	HAS Responses	
3	<b>Billed costs in Clark Payment Estimate #61 greater than costs recorded in job cost ledger</b>	The job cost ledger through 6/30/10 lists costs totaling \$65,688,627.90. Per Application for Payment #61 (the final application for payment for Ph. 1) for the period through January 31, 2010, the cost of work totals \$65,767,258.07 (Billed cost including fee of \$68,517,978.77 less the fee calculated in compliance with the agreement of \$2,750,720.70). This results in a difference of \$78,630.17.	\$ 78,630.17	Clark should provide HAS with a listing of any unrecorded costs incurred with supporting invoices for this difference. If the list of unrecorded costs provided is less than \$78,630.17, the remaining difference should be refunded to HAS.	<i>The reported difference in values is not due to unrecorded costs. It is in the Fee calculation for the project with the Fee calculation by the audit team. Please reference Item #B for clarification.</i>	No HAS Response Provided	The Fee should be calculated based on the eligible costs. The Audit team used actual costs from the Cost Ledger provided by Clark, adjusting for items not eligible for the Fee, which differed from Clark's fee calculation.
4	<b>Miscellaneous costs that are not considered "Cost of the Work"</b>	ConstructWare Journal Entry - Project Management System \$60,000 recorded in November 2005 and \$(50,000) recorded in January 2006. <b>Clark has indicated that they plan on adding the \$50,000 back to the job cost ledger.</b>	\$ 10,000.00	The CMAR Agreement in Article 7.02 (g) Construction Manager's Construction Phase Fee includes outside services and their expenses for estimating, personnel, accounting, budget control, audit, and management information systems. Since the CMAR fee is supposed to cover such costs HAS should request a credit of \$10,000 for the cost of this software and should refuse any additional charges that Clark might record in the future.	<i>The Constructware charge is not an overcharge. Subcontractors were notified that Constructware would be used on the project during the bid period. HAS realized savings from subcontractors' bids as they did not need to provide their own system. Management Information Systems include email and financial systems for payroll, etc. exclusive to Clark. Constructware is an optional platform tool used by the entire team – subcontractors, Clark, HAS/City, and the Architect/Engineer. This is not a corporate cost as it is not a fixed tool used on every project.</i>	HAS concurs that this software was obtained by Clark specifically for this project due to HAS not having a similar system for project controls (as opposed to Clark's internal corporate controls and information systems). This was an access charge/license which will have no residual value at the end of the project.	No documentation was provided that showed HAS as the licensed owner of the software. Therefore, it is not part of the job cost, but rather is an overhead cost absorbed by the CMAR Fee. Project information systems are specifically identified as items covered by the CMAR fee.
5	<b>Miscellaneous costs that are not considered "Cost of the Work"</b>	Dell (invoice date - June 5, 2007) - (10) 1 GB Memory Modules	\$ 1,034.55	A Dell Computer invoice for (10) 1 GB Memory Modules that were shipped to Atkinson Construction Co. in Bellevue, WA was charged to this project. HAS should request a credit for this amount from Clark.	<i>The referenced Dell invoice was not an overcharge. The actual invoice inadvertently stated it would be shipped to Atkinson, a default for the order. It was, in fact, ordered by and received by Mark Christensen, Project Engineer.</i>	HAS has requested but has not been provided with any internal memos, shipping orders, etc. to confirm Clark's assertion.	Maintenance of computers owned by the CMAR falls under their responsibility. HAS pays rent for these items which should include normal, routine maintenance.
6	<b>Miscellaneous costs that are not considered "Cost of the Work"</b>	FS Industries (invoice date May 19, 2008) - Forkliftable Building. The invoice for this purchase included two buildings totaling \$12,116.08. The total was recorded as job cost on this project, but one of the two buildings was shipped to Clark's San Antonio International Airport project. As such, there was an overcharge of \$6,057.54 to this project.	\$ 6,057.54	HAS should request a credit of \$6,057.54 for the building that was charged to Project 417F in error.	<i>One of the referenced guard shacks is being credited to the Phase 2 bussing budget. It was inadvertently charged to Hobby. HAS has received a credit in the amount of \$6,057.54 in Phase 2. The other referenced guard shack is still in use on the project. At the project's completion, or sooner, the equipment will be turned over or a credit for the residual value will be provided.</i>	HAS concurs that it received a credit in the amount of \$6,057.54 in Phase 2. The other referenced guard shack is still in use on the project. At the project's completion, or sooner, the equipment will be turned over or a credit for the residual value will be provided.	Credit should be received, approved and verified.

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Responses	
7	Miscellaneous costs that are not considered "Cost of the Work"	Software House (invoice date - July 16, 2008) - Software-AutoCad	\$ 1,096.04	Software shipped to Maryland for an end-user in Maryland. HAS should request a credit for this amount from Clark.	<i>The referenced software was not an overcharge. The software in question typically has a ship to address of the corporate office because they have daily/weekly deliveries. The IT department either installs the software on a new computer or ships it to the jobsite after the serial number is recorded. In this case, the software was for Maryam Ebtehadj, Office Engineer, and it is still being used at the jobsite.</i>	HAS has observed the software in place on the project and concurs that it was installed as described by Clark.	No documentation was provided that showed HAS as the licensed owner of the software. Therefore, it is not part of the job cost, but rather is an overhead cost absorbed by the CMAR Fee.
8	Miscellaneous costs that are not considered "Cost of the Work"	Moffitt (invoice dated January 5, 2009) - Executive Search Costs for recruitment of Clark Safety Engineer in January 2009	\$ 21,900.00	The CMAR Agreement in Article 7.02 (g) (3) Construction Manager's Construction Phase Fee includes outside services and their expenses for estimating, personnel, accounting, budget control, audit, and management information systems. Since the CMAR fee is supposed to cover such costs HAS should request a credit of \$21,900 for these recruiting (personnel) costs.	<i>Correct. HAS will receive a credit for the referenced charge(s).</i>	HAS concurs with the credit.	Credit should be received, approved and verified.
9	Miscellaneous costs that are not considered "Cost of the Work"	Project Management - Phase 1 Closeout Management Journal Entry dated October 12, 2009.	\$ 1,491.43	Clark transferred salary labor costs totaling \$89,396 from Phase 2 to Phase 1 job cost ledger. In reviewing the supporting calculation, \$1,491.43 is deemed to be a potential overcharge due to rates billed being greater than rates in the contract. HAS should request a credit for this amount from Clark.	<i>Same as Item #1. No credit is due.</i>	Without the details of the auditor analysis or Clark's calculations which were previously requested HAS can not assess whether a credit is due or that the amount is correct. HAS will continue to analyze if additional information is provided.	The transferred salaried labor costs rates did not equal the rate schedules, and were not supported by an amendment to the rates. Therefore the credit should still apply. HAS never asked for any documentation to support any of our calculation.
10	Insurance and Bond Costs that are not considered "Cost of the Work"	Excess Liability Insurance - 4th Quarter 2007 GL<\$5k Claims Reimbursement Journal Entry dated December 31, 2007	\$ 1,017.27	No invoice or supporting documentation could be provided by Clark. Per Clark's Senior Project Manager, no claims have been filed for this project. HAS should request a credit for this amount from Clark.	<i>This was an auto liability claim against the \$5,000 deductible. Clark provided liability insurance with a \$5,000 deductible at a substantial savings over a policy with a \$0 deductible. However, Section 11.2.5 of the General Conditions states that "CM bears assumes and bears any claims or losses to extent of any deductible amounts and waives claim it may ever have for same..." Thus, the amount will be credited to the City.</i>	HAS concurs	Credit should be received, approved and verified.
11	Insurance and Bond Costs that are not considered "Cost of the Work"	Excess Liability Insurance - 1st Quarter 2008 GL<\$5k Claims Reimbursement Journal Entry dated April 28, 2008	\$ 2,218.24	No invoice or supporting documentation could be provided by Clark. Per Clark's Senior Project Manager, no claims have been filed for this project. HAS should request a credit for this amount from Clark.	<i>This was an auto liability claim against the \$5,000 deductible. Clark provided liability insurance with a \$5,000 deductible at a substantial savings over a policy with a \$0 deductible. However, Section 11.2.5 of the General Conditions states that "CM bears assumes and bears any claims or losses to extent of any deductible amounts and waives claim it may ever have for same..." Thus, the amount will be credited to the City.</i>	HAS concurs	Credit should be received, approved and verified.
12	Insurance and Bond Costs that are not considered "Cost of the Work"	Excess Liability Insurance - 4th Quarter 2008 GL<\$5k Claims Reimbursement Journal Entry dated December 31, 2008	\$ 5,000.00	No invoice or supporting documentation could be provided by Clark. Per Clark's Senior Project Manager, no claims have been filed for this project. HAS should request a credit for this amount from Clark.	<i>This was an auto liability claim against the \$5,000 deductible. Clark provided liability insurance with a \$5,000 deductible at a substantial savings over a policy with a \$0 deductible. However, Section 11.2.5 of the General Conditions states that "CM bears assumes and bears any claims or losses to extent of any deductible amounts and waives claim it may ever have for same..." Thus, the amount will be credited to the City.</i>	HAS concurs	Credit should be received, approved and verified.

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses	
Item	Name	Observation	Amount	Background/Recommendation	Clark Response		HAS Responses
13	<b>Insurance and Bond Costs that are not considered "Cost of the Work"</b>	Excess Liability Insurance - 4th Quarter 2008 GL<\$5k Claims Reimbursement Journal Entry dated December 31, 2008	\$ 1,868.55	No invoice or supporting documentation could be provided by Clark. Per Clark's Senior Project Manager, no claims have been filed for this project. HAS should request a credit for this amount from Clark.	<i>This was an auto liability claim against the \$5,000 deductible. Clark provided liability insurance with a \$5,000 deductible at a substantial savings over a policy with a \$0 deductible. However, Section 11.2.5 of the General Conditions states that "CM bears assumes and bears any claims or losses to extent of any deductible amounts and waives claim it may ever have for same..." Thus, the amount will be credited to the City.</i>	HAS concurs	Credit should be received, approved and verified.
14	<b>Insurance and Bond Costs that are not considered "Cost of the Work"</b>	Excess Liability Insurance - Phase I Close-out Journal Entry dated October 13, 2009	\$ 40,173.00	Charge to job cost ledger to increase the balance of this account to Clark's budgeted amount for excess liability insurance. No invoice for this amount could be provided by Clark. Since no invoice was provided, HAS should request a credit for this amount from Clark.	<i>See item #PRU2. Additionally, because there were three amendments to the project, and a desire to track certain elements of the costs separately, a new job number was selected for Amendment #3. This allowed us to follow the subcontracts, division costs, and contingencies more selectively. Because not all costs for the subsequent Amendments were tracked in this manner, there were instances where costs were charged to both job numbers. Thus, when the first job's budgets for GCs and insurance were used, costs were allocated to the next job number. Please note that all costs for Project 417F are reconciled at project completion and all savings are deducted from the project budget. Reference letter dated February 17, 2011 from City Engineer. Additionally, complete package requested by HAS to follow.</i>	Clark has just provided detailed information on insurance costs, which are largely centralized costs that were then allocated to individual projects. At this time HAS can not confirm that the cost distribution is appropriate, nor can we confirm that it is not correct. HAS continues to analyze.	The information provided does not adequately support this journal entry (e.g. no insurance policy, no actual premiums paid, bills, etc.).
15	<b>Insurance and Bond Costs that are not considered "Cost of the Work"</b>	Miscellaneous Insurance - Phase II Precon Journal Entry dated October 12, 2009	\$ 40,000.00	Charge to job cost ledger was based on Clark's budget amount for insurance. No invoice for this amount could be provided by Clark. Since no invoice was provided, HAS should request a credit for this amount from Clark.	<i>Same as Item # 14.</i>	Clark has just provided detailed information on insurance costs, which are largely centralized costs that were then allocated to individual projects. At this time HAS can not confirm that the cost distribution is appropriate, nor can we confirm that it is not correct. HAS continues to analyze.	The information provided does not adequately support this journal entry (e.g. no insurance policy, no actual premiums paid, bills, etc.).
16	<b>Insurance and Bond Costs that are not considered "Cost of the Work"</b>	1 Year Maintenance Bond - Phase I Close-out Journal Entry dated October 12, 2009	\$ 10,000.00	Charge to job cost ledger was based on Clark's budget amount for the maintenance bond. However, Clark's Senior Project Manager provided an invoice that included amount for the maintenance bond, which was verified as being recorded in the job cost ledger. HAS should request a credit for this amount from Clark.	<i>Because there were three amendments to the project and a desire to track certain elements of the costs separately, a new job number was selected for Amendment #3. This allowed us to follow the subcontracts, division costs, and contingencies more selectively. Because not all costs for the subsequent Amendments were tracked in this manner, there were instances where costs were charged to both job numbers. Thus, when the first job's budgets for bond were used, costs were allocated to the next job number. Additionally, Clark breaks single line budgets for internal use, not necessarily for the City's audit use. For example, General Conditions has over 10 budget lines in Clark's accounting system. However, it is rolled up into a single line for the City's use. As bond is a single line item in the GMP and Amendments, this is how they are ultimately considered to Clark as well.</i>	Clark has just provided detailed information on insurance costs, which are largely centralized costs that were then allocated to individual projects. At this time HAS can not confirm that the cost distribution is appropriate, nor can we confirm that it is not correct. HAS continues to analyze.	The maintenance bond entry noted here had already been recorded as part of another invoice paid for insurance coverages in the job cost ledger, therefore this was charged twice and should be credited/returned

April 13, 2011

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Sec. 1 Potential Overchgs

**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
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**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Responses	
17	<b>Insurance and Bond Costs that are not considered "Cost of the Work"</b>	Insurance Deductibles - Phase I Close-out Journal Entry dated October 13, 2009	\$ 50,000.00	Charge to job cost ledger was based on Clark's budget amount for insurance deductibles. No invoice or other supporting documentation could be provided by Clark. Per Clark's Senior Project Manager, no claims have been filed against insurance policies, therefore, no deductibles were paid. HAS should request a credit for this amount from Clark.	See item #16.	Clark has just provided detailed information on insurance costs, which are largely centralized costs that were then allocated to individual projects. At this time HAS can not confirm that the cost distribution is appropriate, nor can we confirm that it is not correct. HAS continues to analyze.	This was a journal entry based on the budgeted amount of insurance deductibles and had no documentation supporting actual deductibles paid. Section/Article 11.2.5 of the General Conditions states that "CM assumes and bears any claims or losses to extent of any deductible amounts and waives claim it may ever have ..." Thus, the amount will be credited back to the City, similar to credits conceded in numbers 10-13.
18	<b>Hurricane Ike costs that are not considered "Cost of the Work"</b>	Hilton San Antonio Airport - Rooms, meals, beverages, etc. for 4 Clark employees for 3 nights each for the period 9/15/08 through 09/18/08.	\$ 2,112.98	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred directly and solely in support of the Project, but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was documented as relocation due to hurricane. These costs are not reasonable and customary. HAS should request a credit for this amount from Clark.	<i>The expenses related to Hurricane Ike accommodations were not classified as reasonable and customary. Due to the emergency nature of the hurricane, "reasonable" rates were not available. In an effort to be able to respond to HAS as quickly as possible, Clark moved employees out of harm's way to San Antonio. This allowed Clark to coordinate efforts since there was no power or telecommunications in Houston. Several employees traveled back and forth to support the airport in this emergency situation. Clark used local contacts to attain emergency response services from both electricians and roofers. Without these accommodations, service could not be provided during this emergency and the airport may have had to limit passenger services. Please discuss this further with Mr Eric Potts, Deputy Director, if necessary. Former Aviation Director, Mr Richard Vacar, commended Clark for the response and service to HAS.</i>	Hurricane Ike was an emergency. Clark acted far above the call of duty in assisting HAS during the recovery from this event, when there was no power or telephone service available in Houston. Clark's relocated personnel did make contact with needed services that could not be done from the project site. This was not a "reasonable and customary" event and required extraordinary action that could not have been accomplished in any other manner.	Being responsive in disastrous situations should be encouraged, however, some of the charges appeared excessive and included alcohol, etc. However, because the impact and magnitude does not appear material the amount could be negotiated.
19	<b>Hurricane Ike costs that are not considered "Cost of the Work"</b>	Senior Project Manager's Expense Report (JB000101) for the period September 11, 2008 through November 22, 2008 includes rooms, meals, beverages, etc. for several Clark employees in San Antonio and Houston; and airfare from San Antonio to/from Houston. Hotel room costs include 8 room nights (\$299 a night plus tax) at the Westin La Cantera Resort in San Antonio and 9 room nights (\$269 a night plus tax) at the Houston Marriott Medical Center Hotel.	\$ 7,983.54	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred directly and solely in support of the Project, but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses shown on the expense report stated "Staff Evacuation due to Hurricane Ike. All staff accommodations on this report." These costs are not reasonable and customary. HAS should request a credit for this amount from Clark.	Same as Item #18.	Hurricane Ike was an emergency. Clark acted far above the call of duty in assisting HAS during the recovery from this event, when there was no power or telephone service available in Houston. Clark's relocated personnel did make contact with needed services that could not be done from the project site. This was not a "reasonable and customary" event and required extraordinary action that could not have been accomplished in any other manner.	Being responsive in disastrous situations should be encouraged, however, some of the charges appeared excessive and included alcohol, etc. However, because the impact and magnitude does not appear material the amount could be negotiated.

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**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Responses	
20	Houston costs that are not considered "Cost of the Work"	Project Executive's Expense Report (LG000029) included \$1,300 for January 26, 2008 - Tony's Restaurant in Houston included dinner and drinks for 8 people. The business purpose shown on the expense report was "Houston Hobby Airport Expansion", but the restaurant receipt included a hand-written notation that said "Marketing - Continental Airlines Houston". Included in the \$1,300.00 was \$514.00 for alcoholic beverages.	\$ 1,300.00	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. In addition, the City of Houston's approved travel policy does not permit the reimbursement of any alcoholic beverages. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concurr.	Credit should be received, approved and verified.
21	Houston costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000016) for March 2006 - Alcoholic beverage at Remington Bar (Houston)	\$ 11.00	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The City of Houston's approved travel policy does not permit reimbursement for any alcoholic beverages. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS concurs.	Credit should be received, approved and verified.
22	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000016) for March 2006 - Allocation of 2 airline tickets for flights on American Airlines (Dallas-Santa Ana-Dallas-Hobby-Dallas) and (Dallas-Hobby-Dallas-Santa Ana-Dallas)	\$ 600.00	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since travel began and ended in Dallas, the project business purpose for these expenses is not clear. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concurr.	Credit should be received, approved and verified.
23	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000025) for April 2006 - Allocation of airline ticket on American Airlines (Hobby-Atlanta-Miami-Washington DC-Dallas) Business Purpose per expense report - Washington DC	\$ 551.65	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since travel was to Atlanta, Miami, Washington DC, and Dallas, the project business purpose for these expenses is not clear. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concurr.	Credit should be received, approved and verified.
24	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000034) for June and July 2006 - 2 airline tickets on American Airlines (Dallas-Los Angeles, Santa Anna-Dallas) and (Dallas-Santa Ana, Los Angeles-Dallas) Business Purpose per expense report - Clark, LAX Tom Bradley	\$ 2,277.30	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concurr.	Credit should be received, approved and verified.

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
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**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Responses	
25	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000054) for January to March 2007 - Airline tickets on American Airlines (several Dallas-Hobby-Dallas flights, 2 of the tickets are for a family member ) and other charges - Dallas airport parking, mileage to Houston, etc. Expenses for the family member totaling \$355.20 are not Cost of the Work.	\$ 355.20	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since travel expenses for Clark family members are not considered Cost of the Work HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concur.	Credit should be received, approved and verified.
26	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000054) for January to March 2007 - No support was provided for these expenses	\$ 572.16	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since no support of these expenses was provided, HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concur.	Credit should be received, approved and verified.
27	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000066) for May 2007 - Airline tickets, meals, cabs, etc. Airfare on American Airlines (Dallas-Washington DC-Dallas 2 tickets - for himself and a family member) Business Purpose per expense report - Officers Meeting.	\$ 1,037.98	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The project business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concur.	Credit should be received, approved and verified.
28	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (KC000066) for April 2007 - Airline ticket on American Airlines (Houston to Dallas one-way)	\$ 164.90	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since the airline ticket was for travel to Dallas, the project business purpose for this expense is not clear. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concur.	Credit should be received, approved and verified.
29	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (LG000029) for January - February 2008 - 6 airline tickets on Southwest Airlines to/from Houston and San Antonio (4 tickets) or Dallas (2 tickets)	\$ 273.50	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since one of the airline tickets totaling \$273.50 was a round-trip from Dallas to San Antonio with no connection to this project HAS should request a credit for this amount from Clark.	A portion of the referenced charges was a cost of the work, as trip costs were split between SAT and HOU with Mr. Ansari working at both jobs. However, one trip the week of February 11, 2008 was a roundtrip to SAT, thus HAS will receive a credit in the amount of \$273.50.	HAS Concur.	Credit should be received, approved and verified.
30	Not Used						

April 13, 2011

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Item	Name	Observation	FINDING		RESPONSES		Audit Division Assessment of Responses
			Amount	Background/Recommendation	Clark Response	HAS Responses	
31	Travel costs that are not considered "Cost of the Work"	Hilton San Antonio Airport Hotel Invoice dated April 2008 - 5 individuals, 2 nights each	\$ 1,389.30	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". Since no business purpose for these expenses was listed on the invoice and the hotel is in San Antonio, the project business purpose for these costs is not clear. HAS should request a credit for this amount from Clark.	<i>Business purpose for referenced expenses was training for P6. Rather than pay the full training fee again in Houston, employees were sent to San Antonio and only the accommodations were charged.</i>	HAS concurs that this was a reasonable approach and would normally be approved. There is no evidence that it was approved in writing as required by Section 801(d)(7) of the Contract.	Training costs are not directly and solely related to the project and should be covered by the CMAR fee as Overhead - along with its associated travel costs.
32	Travel costs that are not considered "Cost of the Work"	Senior Project Manager's Expense Report (JB000102) for October 2008 - airline tickets on Continental Airlines (Houston-Raleigh, Washington, DC-Houston) and Southwest Airlines (Raleigh-Baltimore) Business Purpose per expense report - PM Steering Committee	\$ 482.00	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	<i>Correct. HAS will receive a credit for the referenced charge(s).</i>	HAS Concurr.	Credit should be received, approved and verified.
33	Travel costs that are not considered "Cost of the Work"	Senior Project Manager's Expense Report (JB000103) for October and November 2008 - airline change fee, meals, car rental, gas, cabs (Maryland); airline ticket on Southwest Airlines (Houston-Los Angeles-Houston) Business Purpose per expense report - PM Steering Committee	\$ 559.59	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	<i>Correct. HAS will receive a credit for the referenced charge(s).</i>	HAS Concurr.	Credit should be received, approved and verified.
34	Travel costs that are not considered "Cost of the Work"	Senior Project Manager's Expense Report (JB000104) for December 2008 - hotel, meals, beer, cabs, etc. Business Purpose - PM Steering Committee Meeting in Los Angeles	\$ 315.46	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	<i>Correct. HAS will receive a credit for the referenced charge(s).</i>	HAS Concurr.	Credit should be received, approved and verified.
35	Travel costs that are not considered "Cost of the Work"	Senior Project Manager's Expense Report (JB000105) for January 2009 - airline ticket on Continental Airlines (Houston-Baltimore-Houston); and hotel, etc. (Maryland) Business Purpose per expense report - PM Steering Committee	\$ 411.36	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	<i>Correct. HAS will receive a credit for the referenced charge(s).</i>	HAS Concurr.	Credit should be received, approved and verified.

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Responses	
36	Travel costs that are not considered "Cost of the Work"	Project Executive's Expense Report (LG000059) for October and December 2009 - 2 airline tickets, on Southwest Airlines (Hobby-Dallas-Hobby) and (San Antonio-Hobby-San Antonio); Dallas car rental; San Antonio and Washington DC meals, cabs, etc. Washington DC description listed as Officers Meeting. One of the Business Purposes per expense report was listed as San Antonio International Airport Expansion.	\$ 1,607.96	The CMAR Agreement in Article 8.01 (a) 4 Cost of the Work states that "reasonable and customary travel expenses of Construction Manager's personnel incurred <i>directly and solely in support of the Project</i> , but only to the extent permitted by City's policies on reimbursement for travel". The business purpose for these expenses was not related to the project. HAS should request a credit for this amount from Clark.	Correct. HAS will receive a credit for the referenced charge(s).	HAS Concur.	Credit should be received, approved and verified.
37	Overstated Rental Costs for Vehicle	Rental costs from May 2006 to July 2008 for a 1999 Ford F150 Pickup Truck were charged to the project. At the time that this rental was charged to the project, this vehicle should have been totally depreciated by Clark. Only fuel, maintenance and insurance should have been the actual costs charged to the project.	\$ 14,475.00	The CMAR Agreement in Article 8.01 states "the term Cost of the Work means reasonable cost". Since the 1999 year model vehicle should have been fully depreciated at the time it was assigned and charged to the project, the amount charged as rental is not a "reasonable" cost. HAS should request a credit for the portion of the rental cost charged applicable to the true cost of the vehicle excluding insurance costs.	<i>Equipment rental rates are established based on the market rates for similar equipment from an outside vendor and are normally set at the lowest price, or below, as is industry standard. In the case of the least expensive vehicle on the job, a 1/2 ton pickup the market rate for monthly rental is \$1,100 from Enterprise rental. In addition we compare our rates based on the Construction Blue Book, a third party resource that is commonly used by many government agencies for agreed upon rental rates for all equipment. We currently have a project in this area that is based on 75% of the blue book rate. That cost is \$8/hour which works out to \$1,408/month. All rates for vehicles are "bare rates" and do not include maintenance, fuel, tags, or property taxes. This is common practice for equipment, based in part on the issue of having a wide range of charges from local and state governments. Equipment contracts specifically spell these items out as additional costs to the jobsite. Some vehicles are older and some are brand new.</i>	HAS believes that the manner in which Clark charges for its equipment is a business decision that Clark is entitled to make. There is no difference in what a 1999 pickup and a 2011 pickup provide in terms of completing the work. The amount paid is less than what was available from other commercial sources and is considered reasonable.	The response does not justify a monthly charge of \$500 for a 7-9 year old vehicle and doesn't portray an accurate fact pattern supporting the rental example. A credit should be sought.
38	Overstated Rental Costs for Jobsite Office Complex	Job Site Complex - The monthly rental charge for the job site trailers increased in June 2008 from \$2,500 a month to \$3,500 a month. Therefore, an additional \$1,000 was charged for 13 months for a total of \$13,000 to the project.	\$ 13,000.00	The CMAR Agreement in Article 8.01 states "the term Cost of the Work means reasonable cost". Since there were no major changes to the configuration of the office trailer complex there should not have been a price increase for the rental of the Clark-owned trailers to HAS. HAS should request a credit for this amount from Clark.	<i>The jobsite office complex does not have an overstated rental cost. The original rate charged for the complex was lower than market value for the area, and charged in error. We also provided competitive pricing that showed the \$3,500 charge was less than market value. Future charges were brought to market value.</i>	HOU believes that Clark did undercharge for the complex based on charges for similar complexes on other projects and that the \$3500 is reasonable and thanks Clark for not pursuing a charge for the months the project was undercharged.	There is no support for a 40% increase to rental of standard job site trailers. A credit should be sought for this amount.
39	Not Used						

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 1**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Reponses	
40	<b>Incorrect Calculation on Change Order to Clark Subcontractor - Jimerson Underground</b>	Clark Change Order No. 4 to Jimerson Underground - The correct change order amount should have been \$131,636.01 instead of the \$137,085 amount issued. Jimerson used an incorrect markup of 10% on its sub-subcontractor's work which resulted in an over-pricing of \$5,448.99.	\$ 5,448.99	HAS should require Clark to issue a revised change order to Jimerson accounting for the \$5,448.99 allowed for overhead and profit to Jimerson's sub-subcontractor in error. Any credit due to HAS that results from the adjustment to Jimerson's subcontract value should be included as an adjustment to Clark's final job cost.	<i>Jimerson Change Order #004 has an incorrect calculation on subcontractor markup of 10%. Credit due to HAS in the amount of \$5,448.99.</i>	HAS Concurrs	Credit should be received, approved and verified.
		<b>Total Potential Overcharges</b>	<b>\$ 816,386.92</b>				
		<b>CMAR fee @ 5%</b>	<b>\$ 40,819.35</b>				
		<b>Total</b>	<b>\$ 857,206.26</b>				

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## EXHIBIT 1

# SECTION 2 – POTENTIAL RECOVERABLE UNSUPPORTED COSTS

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 2**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses	
Item	Name	Observation	Amount	Background/Recommendation	Clark Response		HAS Response
PRU1	Missing Supporting Documentation for Hourly Labor Workers Compensation Burden Costs	Supporting documentation (rates from the Workers Compensation insurance policies) for hourly labor Workers Compensation burden costs was requested from Clark several times during the audit. Clark did not provide the requested information. Based on our sample, we calculate the burden rate for Workers Compensation was 10.1%. Based on labor costs totaling \$406,533.76 recorded in the job cost ledger, the Workers Compensation burden for hourly employees is estimated to be \$41,059.91.	\$ 41,059.91	Clark was not able to provide rates from the Workers Compensation insurance policies to support the rates used in the hourly burden calculations. Since Clark did provide evidence that Workers Compensation insurance was in place and, therefore, incurred a cost to maintain this coverage, this issue is listed as a potential recoverable unsupported cost exception. HAS should require Clark to provide support for the Workers Compensation rates used. If the actual rate differs from the rate used, an adjustment to hourly burden costs should be recorded in the job cost ledger.	<i>Copies of the filed rates for work in the state of Texas were provided to the auditor. Workers' compensation rates are based upon our insurer's, Zurich, filed rates for the state in which work is performed. The company maintains a substantial deductible on its workers' compensation program and the Zurich filed rates provide the commercial market equivalent of what the premiums would be if the program were purchased on a guaranteed cost basis. We have found that utilizing this methodology adequately funds Clark's losses incurred within the deductible. We were not provided with the auditors' calculation. Additionally, a complete package will follow, as requested by HAS.</i>	HAS just received some information from Clark and expects more with regard to this issue and has not had time to assess. HAS continues to analyze this information.	The documentation provided was for Unemployment, not Workers Compensation, which have separate processes in the State of Texas. The amount identified remains unsupported with actual costs paid.
PRU2	Missing Supporting Documentation for General and Excess Liability Insurance Costs	Excess Liability Insurance - Support for the rates used in the calculation to record costs in the job cost ledger were not provided.	\$ 376,333.86	The calculation provided to support the amounts recorded in the job cost ledger on a monthly basis is based on the billings multiplied by a rate for each month. Clark was not able to provide support from the insurance policies for the rates used in the calculations. Since Clark did provide evidence that general and excess liability insurance was in place and, therefore, incurred a cost to maintain this coverage, this issue is listed as a potential recoverable unsupported cost exception. HAS should require Clark to provide support from the insurance policies for the rates used in the calculation. If the actual rates differ from the rates used in the calculation an adjustment should be made to the job cost ledger.	<i>Clark maintains a corporate liability insurance program of \$200 million which provides protection for all of its work in progress. The insurers in this program base their premiums upon the expected total revenue for the policy year. The insurers do not separately invoice each project. Clark allocates the costs of this program, including a provision for expected loss, via a billing rate derived from dividing total premium by expected revenues. The basis of the calculation for the rates on this project was provided and is attached, along with a letter from the insurance agent confirming payments were made. Additionally, a letter dated February 17, 2011 from the City Engineer concurs with this statement.</i>	HAS just received some information from Clark and expects more with regard to this issue and has not had time to assess. HAS continues to analyze this information.	The information provided does not support actual costs that were allocated to HAS project in support of the rates used. Clark's use of an expected loss provision is not appropriate for Cost of the Work project. We recommend that HAS obtain actual premiums paid and revenue base used for the allocation rates.
PRU3	Missing Supporting Documentation for Journal Entry made to Insurance & Bond Costs	Builders Risk Insurance - Phase 1 Closeout Management Journal Entry dated October 12, 2009	\$ 15,120.00	Clark provided an invoice for Phase 2 but did not provide a supporting calculation for the allocation of the invoice to Phase 1 costs. This issue is listed as a potential recoverable unsupported cost exception. HAS should require Clark to provide the supporting calculation for \$15,120. If the actual calculation amount differs from the amount recorded, an adjustment should be made to the job cost ledger.	<i>Same as Item #14.</i>	HAS just received some information from Clark and expects more with regard to this issue and has not had time to assess. HAS continues to analyze this information.	Information provided was a spreadsheet of premiums associated with the various coverages and did not contain invoices or support of the calculated rates.
PRU4	Missing Supporting Documentation for Journal Entry made to Insurance & Bond Costs	Protective Liability Insurance - Phase 1 Closeout Management Journal Entry dated October 12, 2009	\$ 13,524.00	Clark was not able to provide invoice support for the amount listed. Since Clark did provide evidence that protective liability insurance was in place and, therefore, incurred a cost to maintain this coverage, this issue is listed as a potential recoverable unsupported cost exception. HAS should require Clark to provide invoice support for \$13,524. If the actual amount differs from the amount recorded, an adjustment should be made to the job cost ledger.	<i>Same as Item #14.</i>	HAS just received some information from Clark and expects more with regard to this issue and has not had time to assess. HAS continues to analyze this information.	Information provided was a spreadsheet of premiums associated with the various coverages and did not contain invoices or support of the calculated rates.
		<b>Total Potential Recoverable Unsupported Costs</b>	\$ 446,037.77				
		<b>CMAR fee @ 5%</b>	\$ 22,301.89				
		<b>Total</b>	\$ 468,339.66				

April 13, 2011

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## EXHIBIT 1

### SECTION 3 – RELATED PARTY TRANSACTIONS

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 3**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses	
Item	Name	Observation	Amount	Background/Recommendation	Clark Response		HAS Response
RP1	Clark Construction Group Project Executive - Related-Party Transaction	Rent on a condominium in Houston was paid by Clark to Ezad Corp. from July 2006 through September 2009. The lease of the condo was signed by Clark's Project Executive. The Project Executive signed the lease agreement dated July 1, 2006 for both Ezad Corp (the lessor) and Clark Construction (the lessee). The Harris County Appraisal District website (HCAD.org) for the Tax Year 2005 indicated that the condominium described in the lease agreement was owned by the Project Executive. The Harris County Appraisal District website for the Tax Year 2010 indicated that the condominium was owned by a family member of the Project Executive as of August 26, 2010. This transaction appears to be in direct contravention of Clark's conflict of interest policy.	\$ 73,125.00	Clark's Field Employee Policy Manual states "that potential conflicts of interest must be avoided. The examples of actual or potential conflicts of interest include placement of business with a firm which will result in a direct economic benefit to an employee or any member of his or her family". HAS should address this potential conflict of interest with Clark and should advise Clark that similar types of transactions should be avoided at all costs. HAS should consult with the City's Legal Counsel to ensure that appropriate contract language addressing related-party transactions that may result in potential conflicts of interest is included in all future construction agreements.	HAS will receive a credit for the referenced charge(s).	HAS concurs.	Credit should be received, approved and verified.
RP2	Clark Construction Group Project Executive - Related-Party Transaction	A Caterpillar Skid Steer Loader Model 236B was purchased from Paramount Fine Homes (invoice date - April 25, 2007). The Dallas Better Business Bureau website (www.dallas.bbb.org) lists the Clark Project Executive as President of Paramount Fine Homes. Both Ezad Corp. and Paramount Fine Homes have the same street address in Plano, TX. This transaction appears to be in direct contravention of Clark's conflict of interest policy.	\$ 30,000.00	Clark's Field Employee Policy Manual states "that potential conflicts of interest must be avoided. The examples of actual or potential conflicts of interest include placement of business with a firm which will result in a direct economic benefit to an employee or any member of his or her family". HAS should address this potential conflict of interest with Clark and should advise Clark that similar types of transactions should be avoided at all costs. HAS should consult with the City's Legal Counsel to ensure that appropriate contract language addressing related-party transactions that may result in potential conflicts of interest is included in all future construction agreements. (This finding is also listed as an asset purchase.)	HAS will receive a credit for the referenced charge(s).	HAS concurs.	Credit should be received, approved and verified.

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 3**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING			RESPONSES		Audit Division Assessment of Responses
		Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
RP3	Clark Construction Group Project Executive - Related-Party Transaction	Clark purchased a computer, plotter, and AutoCad from Paramount Fine Homes (check date - February 5, 2008) and charged those costs to the project. The Dallas Better Business Bureau website (www.dallas.bbb.org) lists the Clark Project Executive as President of Paramount Fine Homes. Both Ezad Corp. and Paramount Fine Homes have the same street address in Plano, TX. This transaction appears to be in direct contravention of Clark's conflict of interest policy.	\$ 11,484.40	Clark's Field Employee Policy Manual states "that potential conflicts of interest must be avoided. The examples of actual or potential conflicts of interest include placement of business with a firm which will result in a direct economic benefit to an employee or any member of his or her family". HAS should address this potential conflict of interest with Clark and should advise Clark that similar types of transactions should be avoided at all costs. HAS should consult with the City's Legal Counsel to ensure that appropriate contract language addressing related-party transactions that may result in potential conflicts of interest is included in all future construction agreements. (This finding is also listed as an asset purchase.)	HAS will receive a credit for the referenced charge(s).	HAS concurs.	Credit should be received, approved and verified.
RP4	Clark Construction Group Project Executive - Related-Party Transaction	Clark purchased a 40 foot storage container for \$2,500 from Paramount Fine Homes (invoice date - February 4, 2008) and charged the costs to the project. The Dallas Better Business Bureau website (www.dallas.bbb.org) lists the Clark Project Executive as President of Paramount Fine Homes. Both Ezad Corp. and Paramount Fine Homes have the same street address in Plano, TX. This transaction appears to be in direct contravention of Clark's conflict of interest policy. In addition, the invoice indicates that \$1,500 was charged to Terminal "D" IAH - 112831 (another project) for a bookcase and secretarial section (not included in amount column).	\$ 2,500.00	Clark's Field Employee Policy Manual states "that potential conflicts of interest must be avoided. The examples of actual or potential conflicts of interest include placement of business with a firm which will result in a direct economic benefit to an employee or any member of his or her family". HAS should address this potential conflict of interest with Clark and should advise Clark that similar types of transactions should be avoided at all costs. HAS should consult with the City's Legal Counsel to ensure that appropriate contract language addressing related-party transactions that may result in potential conflicts of interest is included in all future construction agreements. (This finding is also listed as an asset purchase.)	HAS will receive a credit for the referenced charge(s).	HAS concurs.	Credit should be received, approved and verified.
		<b>Total Noted Related-Party Transactions</b>	\$ 117,109.40				
		<b>CMAR fee (none calculated)</b>	\$ -				
		<b>Total</b>	\$ 117,109.40				

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## EXHIBIT 1

### SECTION 4 – UNSUPPORTED COSTS

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 4**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1	<b>Inadequate or Missing Supporting Documentation for Change Orders to Clark Subcontractors - Summary</b>	We reviewed subcontract change orders totaling \$10,079,805 which represented over 22% of the total recorded subcontract costs of \$45,505,314 on the project through June 30, 2010. Of the \$10,079,805 in change orders reviewed we noted inadequate or missing documentation totaling \$5,448,660. The inadequate or missing documentation represents 54.1% of the total subcontract change orders reviewed and 12.0% of the total subcontract costs recorded on the project. See findings U1.1 through U1.19 below for specific details.	as follows	We consider this level of inadequate or missing support related to subcontract change orders to be a significant control weakness. While we do not feel that these are recoverable dollars as the work was done, we have noted the specific instances to display the control environment that appears to have existed on the project at the time. HAS should advise Clark to ensure that all supporting documentation for subcontract change orders should be obtained and maintained for all remaining work that Clark has under contract to HAS.	<i>The third section of the audit reports unsupported costs. We feel the opening statement referencing change orders is too broad and inaccurate. 93 percent of the change orders reported to have inadequate documentation were actual lump sum bids for substantial additional work unrelated to the Subcontractor's existing scope of work. Lump sum bid work does not have the same itemizing requirements. This system was developed at the request of HAS to address HAS' staged approach to this Project, so the Project could proceed before all drawings and specifications were complete, permitting a faster completion. This approach protects HAS as it guarantees a complete broad scope of work for unrelated added Subcontractor work rather than a list of specific items with potential gaps. Of the remaining change order value, we feel that \$35,991 could have better documentation, which we will provide request from the subcontractor's archive files. Additionally, one change order was incorrectly overcharged \$7,428 and this amount will be credited back to HAS.</i>	HAS concurs with the assertion that record keeping on the part of both Clark and HAS could have been better. HAS is moving to an electronic project management system that includes both a complete electronic filing system and a bidding module to ensure that this type of issue does not arise in the future. HAS concurs with the credit of \$7,428.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.1	<b>Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Fisk Electric</b>	Clark Change Order No. 43 to Fisk Electric - Of the \$166,473 change order total, the documentation available in the change order file to support the \$149,554.60 for Fisk (as shown on page 3 of the subcontract change order documents) did not tie to that amount. In addition, supporting documentation for Fisk labor of \$1,912.22 (as shown on page 4 of the subcontract change order documents) was incomplete - the Fisk Standard Estimate Report on file only showed the estimated number of manhours with no labor rates.	\$ 151,466.82	See Finding No. U1 above for comment.	<i>Fisk Electric Change Order #043 (PCO 810098) includes backup documentation including supporting documentation for material and labor. Clark does not understand the statement that documentation is missing, and the second value of \$1,912.22. Please provide further information.</i>	HAS concurs with the assertion that record keeping on the part of both Clark and HAS could have been better. HAS is moving to an electronic project management system that includes both a complete electronic filing system and a bidding module to ensure that this type of issue does not arise in the future	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 4**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1.2	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Fisk Electric	Clark Change Order No. 45 to Fisk Electric - Of the \$1,310,000 change order total, there is missing supporting documentation or incorrect rates that result in exceptions totaling \$617,739.	\$ 617,739.00	See Finding No. U1 above for comment.	<i>Fisk Electric Change Order #045 (PCO 810087) was a lump sum bid for the RFP #087 work. RFP #087 was an interim project funded primarily with Concourse Expansion savings. Documents were issued and lump sum bids were solicited from subcontractors. Since this was a new package of documents with substantial amounts, lump sum bids were solicited. They were accepted upon approval of the GMP proposal.</i>	See Item 1.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.3	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Fisk Electric	Clark Change Order No. 46 to Fisk Electric - Of the \$300,560 change order total, there is missing supporting documentation for the breakers @ \$6,755 and the permit and labels @ \$250 each for a total unsupported amount of \$7,255 before markups.	\$ 7,255.00	See Finding No. U1 above for comment.	<i>Fisk Electric Change Order #046 (PCO 810032) included a breakdown for breakers and an estimate for a permit and labeling. A breakdown was requested and pulled from archive for the breakers. However, the other two items were estimates as the pricing was submitted prior to permitting and final purchases.</i>	See response U2.	Had this documentation been provided during fieldwork, it would have been probably deemed as sufficient and appropriate, however these were originally requested in August of 2010, with subsequent follow-up requests. The contract states records are to be maintained by the CMAR, accessible through the audit clause. Audit standards require evidence and documentation to be timely.
U1.4	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Beard Mechanical	Clark Change Order No. 7 to Beard Mechanical - The \$1,713,000 increase was supported with a lump-sum proposal from Beard composed of several lump-sum amounts for the various components of the work scope. There was no detailed support describing how those amounts were built up as required by the CMAR Agreement and subcontract general conditions for change orders.	\$ 1,713,000.00	See Finding No. U1 above for comment.	<i>Beard Change order #007 (PCO 800216) was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from Beard with many alternates to create the budget. The budget was accepted by HAS and City Council and authorization to proceed with the work was provided.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 4**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1.5	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Beard Mechanical	Clark Change Order No. 22 to Beard Mechanical - The \$224,630 increase was supported with a proposal from Beard for the specified work scope. Of the \$224,630 total we were able to find supporting documentation for all of the amount with the exception of pricing from Beard's sub-subcontractor Ashton. At the time of our review there was no documentation on file for Ashton's \$35,831.25 portion of the total change order. The CMAR Agreement and subcontract general conditions require such documentation for change orders.	\$ 35,831.25	See Finding No. U1 above for comment.	<i>Beard Change Order #022 (810164) was not a lump sum quote. It does include breakdowns to build the amount. These documents are attached.</i>	HAS is satisfied with Clark's documentation and explanation.	Had this documentation been provided during fieldwork, it would have been probably deemed as sufficient and appropriate, however these were originally requested in August of 2010, with subsequent follow-up requests. The contract states records are to be maintained by the CMAR, accessible through the audit clause. Audit standards require evidence and documentation to be timely.
U1.6	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Beard Mechanical	Clark Change Order No. 31 to Beard Mechanical - The \$651,000 increase was supported with a lump-sum proposal from Beard for the specified work scope. There was no detailed support describing how that amount was built up as required by the CMAR Agreement and subcontract general conditions for change orders.	\$ 651,000.00	See Finding No. U1 above for comment.	<i>Beard Change Order #031 (810220) is the value of pulling ahead East Ticketing work that includes chilled water service to Building Services and HVAC in the baggage claim. This was a cost savings measure to avoid providing temporary services to Building Services and new HVAC to replace a demolished mechanical room. This saved substantial temporary cooling cost. A schedule of values for East Ticketing work had been created and approved. The amount for this scope of work was derived from this schedule of values. Since this was a lump sum bid item, an itemized breakout was not produced. This transaction was not an additional cost to Project 417F, rather a contractual shift for the subcontractor. This change order to Beard was also deducted as East Ticketing Change Order #018 (PCO 812068).</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 4**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1.7	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Rago Ltd.	Clark Change Order No. 1 to Rago Ltd. - The \$450,000 "final negotiated price" increase was supported with a lump-sum proposal from Rago. There was no detailed support on file describing how that amount was arrived at.	\$ 450,000.00	See Finding No. U1 above for comment.	<i>Rago Change Order #001 (800014) was for previously unbought apron paving for the East Concourse Expansion. The work was bid twice to attain an accurate scope. The difference in the quotes is highlighted as a change in the thickness of the asphalt bond breaker (as confirmed in RF1 10051). This work was funded from an unbought sitework budget set up after the original lump sum bid. The lump sum bid of \$465,697 was negotiated to \$450,000 by Clark. The following is the complete history: The original Hobby Phase I Bid Package included a Site Bid Package for the apron paving work for Stages I and III. Clark had made contact with several interested bidders, but only one (1) bidder expressed a strong interest and planned on bidding: WW Weber. About two (2) days prior to the bid's due date, WW Weber informed us that they decided not to submit a lump sum bid. The reasons we were provided from WW Weber was that the duration they had to carry their bid until the work was to be completed was too long and they did not want to contract as a Subcontractor. On bid day we received zero (0) bids for the paving work.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.7	Cont				<i>At time of GMP, since we had zero (0) bids for the paving work, it was discussed with the City Engineer that we would include a not to exceed budget for the paving work in our GMP and purchase the work at a later date. Please reference letter dated February 17, 2011 for concurrence. This is in accordance with the Agreement which allows us to submit a GMP with 80% of the costs as lump sum bids and 20% as not to exceed budgets. Stage I paving work was procured through the Stage I Concrete Subcontractor, Rago Concrete, for which Clark received a cost proposal from Rago and issued the work as a change order to Rago.</i>		

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FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1.8	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Patriot Erectors	Clark Change Order No. 24 to Patriot - There was no priced supporting documentation from the subcontractor on file for this change order.	\$ 85,299.00	See Finding No. U1 above for comment.	<i>Patriot Change Order #024 (800223) was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from Patriot to create the budget. The budget was accepted by HAS and City Council to proceed with the work.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.9	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Admiral Glass & Mirror	Clark Change Order No. 19 to Admiral - There was no supporting documentation from the subcontractor for this change order.	\$ 75,300.00	See Finding No. U1 above for comment.	<i>Admiral Change Order #019 (800166) was a lump sum bid for the RFP #087 work. RFP #087 was an interim project funded primarily with Concourse Expansion savings. Documents were issued and lump sum bids were solicited from subcontractors. Since this was a new package of documents with substantial amounts of new work, lump sum bids were solicited. They were accepted upon approval of the GMP proposal.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.10	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Admiral Glass & Mirror	Clark Change Order No. 22 to Admiral - The credit of \$65,000 and the adder of \$35,764 that netted to the credit of \$29,236 were both supported with lump-sum quotations from Admiral. There was no detailed supporting documentation on file describing how those amounts were arrived at.	\$ (29,236.00)	See Finding No. U1 above for comment.	<i>Change Order #022 (810127) includes a credit for deletion of glass and an additional cost for MCM. The deletion of glass was the ratio of the base bid deleted. Although a quote for the MCM addition was submitted, it was not accompanied by a labor and materials breakdown as it was simply a ratio of a bid.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.11	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Admiral Glass & Mirror	Clark Change Order No. 23 to Admiral - Clark could not find any documentation at all for this change order in their files.	\$ 207,292.00	See Finding No. U1 above for comment.	<i>Admiral Change Order #023 (800224) was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from Admiral to create the budget. The budget was accepted by HAS and City Council to proceed with the work.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1.12	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Byrne Metals Corp.	Clark Change Order No. 1 to Byrne - The \$128,945 increase was supported with a lump-sum proposal from Byrne composed of three lump-sum amounts for the various work scopes. There was no detailed support describing how those amounts were built up as required by the CMAR Agreement and subcontract general conditions for change orders.	\$ 128,945.00	See Finding No. U1 above for comment.	<i>Byrne Change Order #001 (810010) was for repairing leaks at the Pilots Lounge at the Concourse. This work was lump sum bid, thus a breakdown was not provided.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.13	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Byrne Metals Corp.	Clark Change Order No. 10 to Byrne - The \$145,142 change order had a number of pieces of missing supporting documentation or improper calculations according to the contract. We were only able to confirm pricing on \$114,325.43 with the remaining \$30,816.57 being unsupported or in error.	\$ 30,816.57	See Finding No. U1 above for comment.	<i>Byrne Change Order #010 (PCO 810068) was for roof investigation and repairs. We offer documentation to substantiate \$137,714.47. Credit due to HAS in the amount of \$7,428.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.14	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - ThyssenKrupp Airport	Clark Change Order No. 5 to ThyssenKrupp - Of the \$83,824 change order total, there is missing supporting documentation for the demolition of Terminal C passenger loading bridges for \$26,721.	\$ 26,721.00	See Finding No. U1 above for comment.	<i>A portion of ThyssenKrupp Change Order #005 (PCO800124) was for removal of Terminal C bridges and walkways. The original quote for \$39,251, dated 05/24/2007, was negotiated to \$26,721 through revised sequencing of the work. The original quote is attached for verification.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.15	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - CST Environmental	Clark Change Order No. 4 to CST Environmental - There was no supporting documentation from the subcontractor on file for this change order. We confirmed this with Clark's Procurement Manager - Purchasing.	\$ 651,063.00	See Finding No. U1 above for comment.	<i>CST Change Order #004 (PCO 800230) was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from CST to create the budget. The budget was accepted by HAS and City Council to proceed with the work.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.16	Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - CST Environmental	Clark Change Order No. 5 to CST Environmental - There was no supporting documentation from the subcontractor on file for this change order. We confirmed this with Clark's Procurement Manager - Purchasing.	\$ 102,897.00	See Finding No. U1 above for comment.	<i>CST Change Order #005 (PCO 800230) was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from CST to create the T&amp;M budget for abatement. The budget was accepted by HAS and City Council to proceed with the work. A final reconciliation of the T&amp;M work was performed and all unused funds were credited back to HAS in CST Change Order #013 (PCO 800395).</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U1.17	<b>Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Lucia</b>	Clark Change Order No. 12 to Lucia - There was no supporting documentation from the subcontractor on file for this change order.	\$ 147,200.00	See Finding No. U1 above for comment.	<i>Lucia Change Order #012 (PCO 800160) was a lump sum bid for the RFP #087 work. RFP #087 was an interim project funded primarily with Concourse Expansion savings. Documents were issued and lump sum bids were solicited from subcontractors. Since this was a new package of documents with substantial amounts, lump sum bids were solicited. They were accepted upon approval of the GMP proposal.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.18	<b>Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Lucia</b>	Clark Change Order No. 14 to Lucia - The supporting documentation on file from Lucia was a single email with a lump-sum number totaling \$84,070. There was no back-up documentation for the pricing of that change order on file. Other documents that had been previously supplied by Lucia were struck-through as if indicating that they were not applicable.	\$ 84,070.00	See Finding No. U1 above for comment.	<i>Lucia Change Order #014 (PCO 800239) was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from Lucia to create the budget. The budget was accepted by HAS and City Council to proceed with the work.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U1.19	<b>Inadequate or Missing Supporting Documentation for Change Order to Clark Subcontractor - Chamberlin Waterproofing</b>	Clark Change Order No. 11 to Chamberlin - Clark could not find any documentation at all for this change order in their files.	\$ 312,000.00	See Finding No. U1 above for comment.	<i>Chamberlin Change Order #011 (PCO 800161) was a lump sum bid for the RFP #087 work. RFP #087 was an interim project funded primarily with Concourse Expansion savings. Documents were issued and lump sum bids were solicited from subcontractors. Since this was a new package of documents with substantial amounts, lump sum bids were solicited. They were accepted upon approval of the GMP proposal.</i>	See response U2.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
U2	<b>Missing Supporting Timesheets for 2008 and 2009 Hourly Labor Costs</b>	Hourly Labor Timesheets for 2008 & 2009 cannot be provided by Clark; therefore, labor costs recorded are not supported.	\$ 180,806.15	HAS should reemphasize to Clark the importance of maintaining all documentation that supports actual costs billed under a CMAR agreement. The lack of supporting timesheets for labor costs that are billed based on actual recorded man-hours is a significant internal control weakness and makes those costs unauditible.	<i>The time sheets were sent to archive. Upon retrieval of documents, they were not in box labeled with these contents. However, Clark provided the cost ledger and certified payroll, both exact accounts of how many hours were worked and paid on the project.</i>	This has been re-emphasized and the project management system HAS is pursuing will maintain those records in a searchable (and backed up) form.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation. We don't recommend that HAS maintain a Contractor's timesheets.
U3	Not Used						

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**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses	
Item	Name	Observation	Amount	Background/Recommendation	Clark Response		HAS Response
U4	<b>Salary Employees Not Listed On Rate Schedules</b>	In our testing, only 20 of the 61 Salary employees charged to the job cost ledger are listed on Exhibit "6" in the Agreement documents. We tested employees to the employees listed in Exhibit "6" for the 61 employees with salary costs totaling \$2,529,612. Of that amount, \$899,215 (35.55%) was paid to employees not listed in Exhibit "6". Using the 35.55% extrapolated to the total salaried expenses (excluding Phase 1 preconstruction), Clark has unsupported Salary charges of \$2,242,709.15.	\$ 2,242,709.18	The CMAR Agreement in Article 8.01 (a) 2 Cost of the Work states that "reasonable and customary wages or salaries of Construction manager's supervisory and administrative personnel who are identified on Exhibit "C" but only for documented time when directly involved in performance of the work". Exhibit "C" identifies personnel, staff, subconsultants and duties for Phase 1 Preconstruction Services, their weekly rate and expected time to complete Phase 1 Preconstruction. Amendment 1 expanded the project to include Phase 1 Construction Services and Phase 2 Preconstruction Services. Exhibit "6" in Amendment 2 identifies personnel, staff, subconsultants and duties for all 3 phases of construction services, their weekly rate and expected time to complete the 3 Service phases. These are the only rate schedules included in the contract; no revised or updated rate exhibits were included in the contract documents. HAS should review the list of all Salary employees charged to the project and determine whether or not each employee should be charged to the project. HAS should request a credit for the cost of any employees not approved by HAS.	<i>The Rate Schedule in the CMAR Agreement was for preconstruction services and Phase 1 construction part of Amendment #1. Subsequent phases were to be negotiated in good faith. Employees have different skill sets that benefit the City during each stage of construction. The core of employees listed performed work in the first stage. The initial stage was substantially complete in April 2007 with three major pieces of work (apron paving, RFP 087, and West Offices) and preconstruction for Phase 2 following as funding allowed. Due to funding issues, this project has had not just fluctuations in manpower, but differences in experience and skill sets. Please note that a GMP was submitted with employees named and their updated rates Amendment #2, East Demolition and West Offices, and it was approved. The City has been notified of all personnel changes, including leadership, and has not presented an issue or asked for removal of any employee. The City is welcome to review time of each employee charged to the project. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on conversation with personnel who have been on the project from the earliest stages individuals assigned to the project were discussed with and approved by the City Engineer (at the time). The City Engineer did not document the file as is currently required by HAS internal procedures.	The salaried personnel charged to the job weren't on the rate schedule and there was not sufficient and appropriate evidence to support the approval.
U5	<b>Missing Timesheets Supporting a Journal Entry for Salary Labor Cost</b>	Project Management - Phase 1 Closeout Management Journal Entry dated October 12, 2009. Clark transferred salary labor costs totaling \$89,396 from Phase 2 to Phase 1 job cost ledger. In reviewing the supporting calculation, \$1,491.43 is deemed to be a potential overcharge (Finding #18) due to rates billed are greater than rates in the contract. No timesheets supporting the hours transferred were prepared by Clark's employees; therefore, these labor costs recorded are not supported.	\$ 87,904.26	HAS should reemphasize to Clark the importance of preparing and maintaining documentation that supports actual costs billed under a CMAR agreement. The lack of supporting timesheets for labor costs that are billed based on actual recorded man-hours is a significant internal control weakness and makes those costs unauditible.	<i>See Item #1. Additionally, employees were working on both Amendment #3 and pre-Amendment #3 closeout. Neither Clark policy nor the Agreement requires timesheets of salaried employees with descriptions of daily work. Each employee's time was separated when closeout was complete and a single journal entry moved estimated time associated with closeout. This document was provided to the audit team and is attached.</i>	See response U2 and the above response.	The timesheets supporting the costs charged were not provided.
U6	Not Used						
U7	Not Used						
U8	Not Used						

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**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
U9	Missing Supporting Documentation for Costs charged to Motor Vehicle Expense	PHH-Vehicle Management Services invoice (#1529101) recorded June 25, 2007 - Clark could not find any documentation at all for this invoice in their files.	\$ 5,712.38	HAS should reemphasize to Clark the importance of maintaining all documentation that supports actual costs billed under a CMAR agreement. The lack of supporting invoice for vehicle costs is a significant internal control weakness and makes those costs unauditible.	<i>Please see attached invoice, recalled from archive.</i>	Clark has provided the invoice; however, this would have been available from the system that HAS is pursuing if it had been installed and available for use.	Had this documentation been provided during fieldwork, it would have been probably deemed as sufficient and appropriate, however these were originally requested in August of 2010, with subsequent follow-up requests. The contract states records are to be maintained by the CMAR, accessible through the audit clause. Audit standards require evidence and documentation to be timely.
		<b>Total Noted Unsupported Costs</b>	<b>\$ 7,965,791.61</b>				

April 13, 2011

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# EXHIBIT 1

## SECTION 5 – PROCEDURAL ISSUES

April 13, 2011

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**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Background/Recommendation	Clark Response	HAS Response	
A	<b>Clark's Billed Costs Exceeded their Cumulative Recorded Costs on Applications for Payment Covering a Significant Portion of the Project Timeline</b>	Beginning with Application for Payment No. 6 for services through 02/28/06 the cost invoiced by Clark exceeded the cost recorded on their job cost ledger by over \$1 million when comparing total billed cost to date with total job cost recorded to date. That trend of overbilling continued through Application for Payment No. 42 for services through 01/31/09. Many of the months had overbillings of over \$2 million to-date with a high overbilling to-date of over \$4 million on Application for Payment No. 30 at 02/29/08.	While this is not a true cash flow difference each month due to variances in payment dates shown by HAS versus payment received dates by Clark, it does point out how aggressively Clark billed this project and how HAS allowed such billing since they had no details related to what Clark's actual recorded costs were throughout the project. The weakness of allowing a contractor to bill solely based on a percentage of completion basis based on a schedule of values without any true-up to actual costs incurred is demonstrated by the extent of billings in excess of cost noted on this project. HAS should consider requiring Clark and other CMAR's to provide periodic reconciliations of billed cost to actual recorded cost on projects of this magnitude in order to reduce the amount of billings in excess of cost to a level that allows the CMAR to maintain a more reasonable working capital balance on each project.	<i>There is a flaw in the audit's cash flow analysis. First and foremost, subcontractor payments and major allowance expenditures do not post as a job cost in the ledger until the month following City approval, as the contract is pay if paid. Thus, the analysis that compares billings through the end of a month will have subcontractor billings, but the cost ledger will not. The date range in question included subcontractor payments in requisitions. Additionally, fee does not post as a charge to Clark's system as a job cost. It is a separate calculation based on percent complete. The audit team did not question the Clark team prior to issuing this statement. Billings were performed in accordance with the Agreement, based on a City-approved cost loaded schedule and never reached levels presumed. Furthermore, owner payments averaged more than 15 days late in 2008, which is not taken into account. Please see attached calculation of the actual cash flow for the February 28, 2008 period in question. The actual calculated cash flow was a negative value of nearly \$1 million.</i>	HAS does not have access to either cash flow analysis and is therefore not in a position to comment on either the auditor or Clark's statements.	The original auditor comment indicates that the test was not a cash flow analysis, but rather a comparison of billings to recorded costs. There would be an expected difference due to the timing of subcontractor billing and payment. We would expect a steady correlation of this variance, however the excess billings over costs increased over time up to \$4 million dollars. This should be monitored for reasonableness. The Cash Flow analysis provided by Clark identified items not contained in the ledger as attempts to reconcile. The documentation was not provided timely and is not sufficient and appropriate.
B	<b>Clark Did Not Provide a Break-out of the CMAR Fee on its Applications for Payment for the Scope of Work Covered by this Audit</b>	Our review of the fee calculation revealed that Clark did not break out the CMAR fee on any of its monthly applications for payment related to the Phase 1 work. It is unclear how HAS could have known how much fee Clark was billing at any point in time on Phase 1 unless it was being provided outside of the applications for payment. The fee should always be billed on a percentage of completion basis in line with costs incurred, but without the fee being broken out separately on the applications for payment it is not clear how anyone at HAS knew what was actually included in the applications for payment for the fee. The only documentation we received of the fee billed on the project was a number written on a piece of paper by Clark's Senior Project Manager. The \$2,828,744 fee amount provided included no calculations or reconciliations - it was a single number hand-written on paper with no other support. Our calculation of the fee is \$2,750,720.70, which is \$78,023.30 less than Clark's. We consider this a control weakness as well.	HAS should require Clark to provide a detailed reconciliation of the amount of fee billed on Phase 1 of the project. HAS should also require Clark and its other CMAR's to include a line item for the CMAR fee on every CMAR-type schedule of values and to indicate the amount of fee being claimed on each application for payment for all such projects.	<i>Fee was rolled into General Conditions, thus it was billed at the same rate as General Conditions were billed, based on the City-approved cost loaded schedule. Please note that Amendment #3 Fee is being billed as a separate line item and as a percentage of work complete. Contract Value subject to Fee is calculated by first subtracting Cash Allowances, Billed Fee, and the Lump Sum Phase 1 Preconstruction (original Agreement) from the final contract value as shown below.  <input type="checkbox"/> Contract Value \$68,517,979.07  <input type="checkbox"/> Cash Allowances (\$6,422,944.44)  <input type="checkbox"/> Billed Fee (\$2,829,951.00)  <input type="checkbox"/> Phase 1 Precon (\$2,319,702.00)                      5.00% of this value, \$56,945,381 gives a final fee value of \$2,847,269.</i>	HAS was aware of the manner in which Clark was billing fee. As Clark notes, this was changed in Amendment #3 to be a separate line item.	Fee should be billed as agreed to by Clark and HAS which should be based on the eligible costs. The Audit team used actual costs from the Cost Ledger provided by Clark, adjusting for items not eligible for the Fee, which differed from Clark's calculation.

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**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

Item	Name	FINDING		RESPONSES		Audit Division Assessment of Responses
		Observation	Background/Recommendation	Clark Response	HAS Response	
C	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Electrical Package (Fisk Electric)</b>	While there was a bid submitted by Fisk Electric for the full electrical scope (the scope of work at the time) we saw no evidence of other bids for the full scope of work. Other electrical subcontractors bid on various segments of the work without submitting full-scope bids. Members of Clark's project management team indicated that Fisk was the only subcontractor that submitted a full-scope proposal for the work, however, we could not find a bid evaluation worksheet showing Clark's analysis of bids received for this work in the documentation available for our review. We also asked Clark personnel if there was an electronic copy of a bid evaluation form available for us to review. They were not successful in finding one to provide to us. The original Fisk subcontract value was \$4,398,497 and the final subcontract value through change order # 120 was \$9,391,391.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. For the referenced package, Fisk provided the scope that most closely matched the solicited scope. Pricing was within budget constraints, thus it was approved by the City Engineer. Please reference letter dated February 17, 2011 for concurrence.</i>	HAS acknowledges that the documentation required by HAS was poor. The current City Engineer for HAS has issued instructions to project managers detailing the information that must be kept as recommended by the auditor. The proposed project management system being used by HAS has a bidding module that will keep all documents submitted with every bid as well as documentation for the selection process, whether it is low bid or best value.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
D	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Sitework Package (Reytec Construction)</b>	There was no bid documentation for the sitework package on file for us to review. This package is Clark Package #2A. Upon further review, we did locate a letter dated 10/26/06 from Reytec to Clark in the Reytec subcontract file that clarified their original bid proposal. This revised proposal was for \$7,654,800. No evidence of the original bid or other competing bids was on file for this package. On 9/28/10 Clark provided an additional explanation of the bidding process related to this package that was prepared by Clark's Senior Project Manager on the project at the time the packages were bid. While the write-up from Clark's Senior Project Manager explained the events related to the bidding process this documentation was prepared as a result of our query about the missing documentation - it was not on file in the bidding files as it should have been from the time the bids were reviewed.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>The original Hobby Phase I Bid Package included a Site Bid Package for the apron paving work for Stages I and III. Clark had made contact with several interested bidders, but only one (1) bidder expressed a strong interest and planned on bidding; WW Weber. About two (2) days prior to the bid's due date, WW Weber informed us that they decided not to submit a lump sum bid. The reasons we were provided from WW Weber was that the duration they had to carry their bid until the work was to be completed was too long and they did not want to contract as a Subcontractor. On bid day we received zero (0) bids for the paving work. At time of GMP, since we had zero (0) bids for the paving work, it was discussed with the City Engineer that we would include a not to exceed budget for the paving work in our GMP and purchase the work at a later date. This is in accordance with the Agreement which allows us to submit a GMP with 80% of the costs as bids and 20% as not to exceed budgets. Stage I paving work was procured through the Stage I Concrete Subcontractor, Rago Concrete, for which Clark received a cost proposal from Rago and issued the work as a change order to Rago.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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D	Continued			<p><i>For Stage III paving, Clark contacted WW Weber, again, and contacted Reytec to provide cost proposals. As before, WW Weber was not interested. Please reference letter dated February 17, 2011 for concurrence. Clark received a cost proposal from Reytec and we negotiated the proposal and scope and issued a Subcontract to Reytec for the work.</i></p> <p><i>Both Stage I and III paving costs were below the budget carried in the GMP and the savings was transferred to contingency. There was nothing included in the bid bucket because no bids were received. Reytec's lump sum bid is included in their Subcontract file.</i></p>		
E	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Mechanical Package (Beard Mechanical)</b>	<p>There was only one bid on file for the original scope of work for the East Concourse Renovation (RFP-087). That bid from Beard appeared to be a sole-source bid. There was no bid evaluation/tabulation on file for that scope of work. Upon further questioning about the status of the bid Clark provided another bid that had been received in July 2007 from Gowan, Inc., the mechanical subcontractor that performed the initial mechanical scope of work in 2006 and early 2007. According to Clark's current Senior Project Manager, Clark was not happy with the pricing that Gowan supplied for the East Concourse and Ticketing Building scope of work. As a result, Clark solicited a bid from Beard in November 2007 and accepted that bid for the scope of work. The bid for the West Office Buildout scope of work provided for our review was also a single-source bid according to the bid evaluation/tabulation form on file. There was no explanation on file for that, but it makes sense that since Beard was already working on-site that they would provide the most competitive pricing for an additional scope of work. The original Beard subcontract value was \$425,000 and the final subcontract value through change order # 40 was \$3,053,177.</p>	<p>HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.</p>	<p><i>RFP #087 was an interim project funded primarily with Concourse Expansion savings. Documents were issued and lump sum bids were solicited from subcontractors. Since this was a new package of documents with substantial amounts, lump sum bids were solicited. The mechanical package had two quotes with accurate scopes of work. Gowan, the subcontractor on the East Concourse Expansion, submitted a quote that appeared high. For this reason, Clark solicited an additional quote from a local small business submitting for City of Houston MBE certification. The quote was significantly lower and submitted as part of the GMP. The GMP was accepted and issued to proceed. Please reference letter dated February 17, 2011 for concurrence.</i></p>	<p>Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.</p>	<p>All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.</p>

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F	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Mechanical Package (Gowan, Inc.)</b>	There were three bids submitted for the Mechanical scope of work on the project. While Gowan was chosen as the successful bidder and their bid appeared to us to be the lowest cost we were not able to locate a bid tabulation / evaluation form in Clark's subcontract bidding files to review to confirm that. The original Gowan subcontract value was \$2,428,857 and the final subcontract value through change order # 26 was \$2,561,338.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. For the referenced package, Gowan had a complete scope with the lowest price.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an auditable record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
G	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Cast-in-Place Concrete Package (Rago, Ltd.)</b>	There were three bidders who submitted bids for the cast in place concrete scope of work. The subcontractor selected (Rago Ltd.) was not the lowest bidder, and we were not able to determine if they were the best value since there was no documentation of such on the bid tabulation/evaluation on file in the subcontractor bidding files. The original Rago subcontract value was \$1,880,654 and the final subcontract value through change order # 13 was \$2,507,769.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. For the referenced package, the selected bidder, Rago, submitted the lowest lump sum bid as the low bidder for this scope had a long list of exclusions. These exclusions when analyzed not only made the pricing go up, but this bidder was not willing to negotiate or sign the Clark Subcontract. Rago was selected based on reputation and value of pricing taking into account the exclusions by the other bidder.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an auditable record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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H	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Structural Steel, Miscellaneous Metals and Precast Concrete Panels Package (Patriot Erectors)</b>	The scope of work covered by this subcontract includes structural steel and miscellaneous metals and precast concrete panels. The structural steel and miscellaneous metals were included in the Structural bid package (# 4) and the precast concrete panels were included in the Exterior Skin package (# 5). There was a bid tabulation/evaluation form on file for the precast concrete panels which showed Patriot as the sole bidder. The bid tabulation/evaluation form on file for the structural steel indicated that Patriot appeared to have the only complete bid on file. The total of the two bids submitted for both work scopes by Patriot was \$2,041,042, which is the amount of the original subcontract issued by Clark to Patriot. However, the bid tab on file for the precast concrete panels showed a total combined bid price for Patriot of \$2,400,420. The bid tab on file for steel and miscellaneous metals showed a price of \$3,421,900. There is no explanation on file for the difference between the amounts on the two bid tabs and the amount of the combined bids that was eventually written as the subcontract value.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. For the referenced packages, the bid tabulations included estimates of scope note included in the bid. However, Patriot Erectors agreed to give a significant discount for the work if awarded both packages in one lump sum Subcontract. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
I	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Site Utilities Package (Jimerson Underground)</b>	While there were several competing bids for the site utilities scope of work bid in November 2005 there was no indication on the bid tabulation/evaluation form why Jimerson Underground was selected as the successful bidder even though their pricing was the lowest. In addition, there was no supporting documentation for the amounts recorded on the bid tabulation for this work package in the files provided for our review. The original Jimerson Underground subcontract value was \$1,167,497 and the final subcontract value through change order # 20 was \$1,610,490.77.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. For the referenced package, Jimerson was selected based on the lowest price with a complete scope. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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J	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Ornamental Metals Package (Environmental Interiors)</b>	While there were several competing bids for the ornamental metals scope of work bid in November 2005 there was no indication on the bid tabulation/evaluation form why Environmental Interiors was selected as the successful bidder when their pricing was not the lowest. The original Environmental Interiors subcontract value was \$1,327,218 and the final subcontract value through change order # 28 was \$1,292,558. The amount bid by Environmental Interiors was \$1,038,838 compared to bids of \$1,317,515 by Milestone Metals and \$903,790 by AECO Interior Contractors.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. The referenced package was a complex scope with a demanding schedule. Clark had major concerns with the low bidders' ability to meet the needs of the project. Clark had very good experiences with Environmental Interiors in not only Houston, but in other parts of the country. HAS put a high priority on performance after past failures. For this reason, the premium was worth the risk of the lower bidders failing to perform. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
K	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Demolition and Abatement Package (CST Environmental)</b>	There were bid tabulation/evaluation forms on file for Package # 1 (demolition and abatement), but there were no bids attached to them in the file. We were not able to confirm that the amounts shown on the bid tabs were the actual bid amounts. The bid tabs contained no explanations as to why CST Environmental was selected as the successful bidder for both work scopes. The original CST Environmental subcontract value was \$118,965 and the final subcontract value through change order # 13 was \$903,618.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. For the referenced package, CST was selected based on their pricing and capabilities. CST could self perform both demolition and abatement. Arc Abatement, subcontractor for the demolition of old concourses A &amp; C, was eliminating their demolition division and was planning to subcontract the demolition scope. HAS and Clark preferred to work with directly with the subcontractor performing the work, not a lower tier. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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L	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Drywall Package (Starcraft Interior)</b>	While there were several competing bids for the original drywall scope of work bid in November 2005 there was no indication on the bid tabulation/evaluation form why Starcraft was selected as the successful bidder when their pricing was not the lowest. Also, there is no documentation to indicate why the actual subcontract was issued for \$248,500 when the bid was \$360,000. The final subcontract value for that scope of work through change order # 21 was \$341,859.33. For the second drywall scope of work in 2008 we did not locate any bids or bid evaluations on file. The initial Starcraft Interior subcontract value for the second scope of work was \$190,626 and the final subcontract value through change order # 15 was \$492,251.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. Due to the lack of clarity in many details, Starcraft requested a meeting to review the details that could not be accommodated before the bid. Starcraft submitted a response to ensure a bid was on record and a meeting was scheduled. After the review, Starcraft re-submitted and was the low bidder with a complete scope. The second lump sum bid referenced in 2008 was part of the West Offices (Amendment #2). This work was solicited for lump sum bid from Starcraft to create the budget. The budget was accepted by HAS and City Council to proceed with the work. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
M	<b>Bidding Deficiencies Noted in Review of Subcontractor Work Packages - Masonry Package (Lucia)</b>	Lucia appeared to be the only bidder that submitted a proposal for the masonry scope of work awarded under this subcontract. There was no documentation of other invitations to bid in the bidding files. It appears that this was a sole-source bid and the bid tabulation/evaluation contained no notes to indicate anything to the contrary. The original Lucia subcontract value was \$526,300 and the final subcontract value through change order # 21 was \$801,658.	HAS should require Clark to retain in the project files complete documentation of all bids and supporting schedules submitted by subcontractors attempting to provide services on the project. HAS should also require Clark to prepare and maintain written bid tabulations and/or evaluations of all bids obtained for each scope of work for which bids were solicited and to submit a recommendation to HAS of the bidder that they consider to be technically capable and the best value for the City. The fact that HAS participates in the review and evaluation of submitted bids should not relieve the CMAR from its duty under contract to document and retain all supporting bids received and evaluations prepared during that process.	<i>General Note: All bid packages were opened and witnessed by HAS. The analysis of each bid package was performed and discussed individually with the City Engineer. Once all packages were reviewed, the GMP was submitted officially naming the subcontractor with the budget. Upon receipt and City approval, HAS issued a Notice to Proceed on December 29, 2005 for a commencement date of January 17, 2006. Publications, advertising in newspaper and other locations, pre-bid meetings, and MWDBE meetings were held to solicit lump sum bids. Due to the City's process, some subcontractors were unwilling to submit for the small package. Lucia was the only complete lump sum bid and, in our opinion, was one of the best in the area. Please reference letter dated February 17, 2011 for concurrence.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

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Item	FINDING			RESPONSES		Audit Division Assessment of Responses
	Name	Observation	Background/Recommendation	Clark Response	HAS Response	
N	<b>Insurance Deficiencies Related to Builder's Risk Insurance Coverage Provided by Clark Construction</b>	Our review of the Builder's Risk policy that Clark obtained indicated that the coverage limit was established as \$46,998,637. The revised contract value through Amendment No. 2 and Change Order No. 2 is \$68,517,979. There is no evidence that the policy limits were ever revised to cover the additional contract value added during the construction period.	HAS should require Clark to obtain and maintain insurance coverage in line with the stated requirements of the CMAR Agreement in Article 11 of the General Conditions Table 1 Required Coverage where in subsection .11 Property and Casualty Coverage: "All Causes of Loss" Builders Risk Form for direct physical damage to building or plant construction on Project Site the requirement for coverage is 100% of the Contract Price including change orders. Further, Article 11.01 of the CMAR Agreement states "Prior to commencing any construction Work, Builder's Risk and any other required coverages as set forth in the Document 00700-General Conditions shall be in full force and effect and shall be increased as necessary for each separate bid package, Phase, or Stage of construction prior to the commencement of construction for that package, Phase, or Stage."	<i>Builders Risk values were increased for policy number IM5372458 and paid on 10/08/08 by endorsement. Builders Risk insurance sums insured are based upon work put in place and that remaining, thus they do not always coincide with total contract value. All invoices were made available for review and are available for further review.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
O	<b>Insurance Deficiencies Related to Owner's and Construction Manager's Protective Liability Insurance Coverage Provided by Clark Construction</b>	Our initial review indicated that there was a gap in coverage for all periods except the period from 06/12/08 to 12/31/09 for Owner's and Construction Manager's Protective Liability coverage based on the certificates of insurance provided by Clark. On 09/29/10 Clark provided certificates of insurance indicating that the OCP coverage was in place from 01/03/06 through 06/01/09. However, all of those certificates were generated by their insurance carrier on 09/27/10. We advised Clark that such supporting documentation was not compelling to convince us that the coverage was in effect for that period, and we suggested that they provide a copy of the actual insurance policy. As of 09/30/10 no such documentation has been provided.	HAS should require Clark to obtain and maintain insurance coverage in line with the stated requirements of the CMAR Agreement in Article 11 of the General Conditions Table 1 Required Coverage where in subsection .4 Owner's and Construction Manager's Protective Liability the required coverage is \$1,000,000 combined single limit each occurrence and in aggregate. Further, Article 11.01 of the CMAR Agreement states "Prior to commencing any construction Work, Builder's Risk and any other required coverages as set forth in the Document 00700-General Conditions shall be in full force and effect and shall be increased as necessary for each separate bid package, Phase, or Stage of construction prior to the commencement of construction for that package, Phase, or Stage."	<i>Please reference the attached insurance certificates indicating coverage for the project. Please note that insurance certificates printed by the agent only print with the current date to prevent back-dating. Additionally, a letter from the broker confirming payment of premiums is included.</i>	Based on information available and discussions with personnel who were on the project at that time Clark's explanation fairly described the history. As noted several times, HAS and the then City Engineer did not adequately document certain elements and that has been address through project manager instructions issued by the current City Engineer. It is further noted that the proposed project management system with automate many of the decision process and provide an audible record of all such actions.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.
P	<b>Deficiencies Related to Payment and Performance Bonds Provided by Clark Construction's Subcontractors</b>	The Performance & Payment bonds provided by the subcontractors to Clark did not cover the full subcontract value between Clark and their various subcontractors based on the bond documentation on file in the subcontract folders provided for our review. We noted this on fifteen (15) of Clark's top sixteen (16) subcontracts (by dollar value) that we reviewed. The subcontractors in question are: Fisk Electric, Reytec Construction, Beard Mechanical, Gowan Inc., Rago Ltd., Patriot Erectors, Admiral Glass & Mirror, Byrne Metals Corp., Jimerson Underground, Thyssen Krupp Airport, CST Environmental, Starcraft Interior (2 separate subcontracts), Lucia LLC, and Chamberlin Waterproofing.	Since Clark allowed its subcontractors to include the cost of payment and performance bonds in change orders that they issued to their subcontractors, and those costs in most cases flowed to HAS through Work Change Directives or through the use of contractor's contingency funds, Clark should have required those subcontractors to update their bond penal values to match the revised amounts of their subcontracts. HAS should require Clark to have the noted subcontractors provide evidence that they each obtained the necessary revised payment and performance bond riders to account for the changes in their subcontract values as a result of change orders issued by Clark.	<i>Clark responds to Surety requests yearly that includes work progress, current contract value, and whether work is satisfactory or not. Prior to closing out a subcontract, a Surety must issue a Consent of Surety for Release in Retention. At this time, they attain the final contract value and charge the subcontractor appropriately. The Consent confirms the Surety is aware of the subcontract value.</i>	HAS accepts Clark's response.	Clark should maintain documentation that ensures that performance and payment bonds are adjusted to final sub-contract value.

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 5**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING				RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Background/Recommendation	Clark Response	HAS Response	
Q	<b>Insurance Deficiencies Related to Gaps in Insurance Provided by Clark Construction's Subcontractors</b>	There are gaps in coverage for various periods for three (3) of the sixteen (16) subcontractors tested based on the certificates of insurance on file in Clark's subcontractor files. Specifically, we found no evidence of any insurance coverage for Admiral Glass & Mirror for the period 02/13/06 through 02/11/08; no evidence of any insurance coverage for Jimerson Underground for the period 07/02/08 through 06/60/09; and no evidence of any insurance coverage for Chamberlin Waterproofing for the period 05/02/06 through 04/30/08.	HAS should require Clark to have their subcontractors obtain and maintain insurance coverage in line with the stated requirements of the CMAR Agreement in Article 11 of the General Conditions where in Subsection 11.2.11 Subcontractor Insurance Requirements it states that "Construction Manager shall require Subcontractors and Suppliers to obtain Commercial General Liability, Workers' Compensation, Employer's Liability and Automobile Liability coverage that meets all the requirements of Section 11.2."	<i>Clark has maintained appropriate subcontractor insurance coverage throughout the project. A subcontractor status report is issued each month with insurance that is set to expire in the next month highlighted. Additionally, no form of payment or transaction may take place in the financial system without up-to-date insurance.</i>	HAS accepts Clark's response.	All documentation should be retained to adequately support the related items. We would recommend that HAS clearly delineate the responsibility of record-keeping so as to not supersede the contractual requirement for the Contractor to maintain complete and detailed books of records with relevant and reliable supporting documentation.

April 13, 2011

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## EXHIBIT 1

### SECTION 6 – PURCHASED ASSETS

April 13, 2011

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**EXHIBIT 1 - DETAILED FINDINGS LOG - SECTION 6**  
**Office of the City Controller and Jefferson Wells**  
**Houston Airport System - Project 417F Phase 1**  
**Construction Manager At Risk (CMAR) - Clark Construction Group - Texas, LP (Clark)**

FINDING					RESPONSES		Audit Division Assessment of Responses
Item	Name	Observation	Amount	Background/Recommendation	Clark Response	HAS Response	
AP1	Equipment direct-purchased and charged to project	Hewlett-Packard (invoice date - January 19, 2006) - Four computers for Owner's (HAS) office	\$ 7,462.60	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion.	<i>The referenced computers were turned over for use in 2006 and remain in the possession of HAS. No further action required.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP2	Equipment direct-purchased and charged to project	Helfman Ford (invoice date - February 13, 2006) - 2005 Ford E350 Van	\$ 19,592.45	HAS should require Clark to turn over this vehicle or issue a credit for the residual value at project completion.	<i>This van was used into Amendment #3 work and transferred to IAH Project #500L. An asset transfer was performed and credited to the Phase 2 budget in the amount of \$10,550.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP3	Equipment direct-purchased and charged to project	MoreDirect, Inc. (invoice date - October 13, 2006) - Content Engine Network Module	\$ 3,044.44	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion.	<i>This is a caching module for the router for T1 service at the trailer. This equipment can be turned over, but will most likely be obsolete at the end of the project.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP4	Equipment direct-purchased and charged to project	MoreDirect, Inc. (invoice date - November 9, 2006) - Software License	\$ 1,034.30	HAS should require Clark to turn over this software or issue a credit for the residual value at project completion.	<i>This is the software license for item #AP3.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP5	Equipment direct-purchased and charged to project	Paramount Fine Homes (invoice date - April 25, 2007) - Caterpillar Skid Steer Loader Model 236B	N/A	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion. (This finding is also a related-party transaction.)	<i>HAS will receive a credit for the full amount of the referenced charge as stated in RP2.</i>	HAS accepts Clark's response.	See Assessment at RP2
AP6	Equipment direct-purchased and charged to project	Mustang Cat (invoice date - July 11, 2007) - Caterpillar Attachments	\$ 7,266.58	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion.	<i>HAS will receive a credit for the full amount of the referenced charge(s).</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP7	Equipment direct-purchased and charged to project	Paramount Fine Homes (invoice date - February 4, 2008) - Storage Container 40 foot	N/A	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion. (This finding is also a related-party transaction.)	<i>HAS will receive a credit for the full amount of the referenced charge as stated in RP4.</i>	HAS accepts Clark's response.	See Assessment at RP4
AP8	Equipment direct-purchased and charged to project	Paramount Fine Homes (check date - February 5, 2008) - Computer, Plotter, and AutoCad	N/A	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion. (This finding is also a related-party transaction.)	<i>HAS will receive a credit for the full amount of the referenced chargees as stated in RP3.</i>	HAS accepts Clark's response.	See Assessment at RP3
AP9	Equipment direct-purchased and charged to project	Dell (invoice date - April 14, 2008) - Widescreen Digital Flat Panel	\$ 1,236.30	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion.	<i>The referenced IT equipment is still being used on the jobsite. At the project's completion, or sooner, the equipment will be turned over or a credit for the residual value will be provided.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP10	Equipment direct-purchased and charged to project	Micah Davis's Expense Report (GE invoice date - May 15, 2008) - Dishwasher, Microwave Oven, and Trash Compactor	\$ 929.45	HAS should require Clark to turn over this equipment or issue a credit for the residual value at project completion.	<i>The referenced appliances are still being used on the jobsite. At the project's completion, or sooner, the equipment will be turned over or a credit for the residual value will be provided.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
AP11	Equipment direct-purchased and charged to project	FS Industries (invoice date May 19, 2008) - Forkliftable Building. The invoice for this purchase included two buildings totaling \$12,116.08. The cost of the building shipped to Clark at Hobby Airport is \$6,058.54.	\$ 6,058.54	HAS should require Clark to turn over this building or issue a credit for the residual value at project completion.	<i>The referenced guard shack is still being used on the jobsite. At the project's completion, or sooner, the equipment will be turned over or a credit for the residual value will be provided.</i>	HAS accepts Clark's response.	Asset Listing should be maintained and reviewed by HAS. At project close-out, the asset or its residual value should be credited back to HAS.
		<b>Total Noted Assets Purchased</b>	<b>\$ 46,624.66</b>				

April 13, 2011

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## **EXHIBIT 2**

# **VIEWS OF RESPONSIBLE OFFICIALS**

**FINAL RESPONSE FROM  
HOUSTON AIRPORT SYSTEM DIRECTOR**

**April 13, 2011**

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are presented exactly as provided and have not  
been edited for content, spelling, grammar, etc.**

# CITY OF HOUSTON

## INTEROFFICE CORRESPONDENCE

TO: Ronald C. Green  
Controller

FROM: Director of Aviation  
Houston Airport System

DATE: April 13, 2011

SUBJECT: Draft Audit Statement Responses

The following is Houston Airport System's response to draft scope limitation comments and recommendations pertaining to the construction contract performance audit of project 417F Phase 1 – New East Concourse, West Office Building, and Main Terminal Expansion at William P. Hobby Airport, Houston, Texas, dated February 21, 2011.

### Response to Scope Limitation Comment Referenced in Recommendation 1:

We agree that lump sum work should not find a place in services rendered under maximum cost, unit price construction management agreements, except for extenuating circumstances that are properly documented. This will be the policy of the HAS for all future agreements of this kind. We are in the process of bringing on board a program management consultant, who will institute any required systems, processes and procedures, and provide training and expert personnel in the management of complex construction management agreements so that we may avoid the problems encountered on this project.

However, there is a clear and unfortunate difference of opinion concerning the City's audit rights of salary costs. I have been advised that the scope of the work included certain tasks that would be completed on a lump sum basis in order to reduce the complexity of the agreement, this being the first Maximum Cost, Unit Price Construction Management contract undertaken by the City. The salaries reviewed by the auditor were, I am told, negotiated and agreed to as lump sum amounts. I am further advised, *"The Cost of the Work for salaried employees is negotiated and defined within the four corners of the contract, regardless of what individual cost elements may have been considered in calculating those rates. Arguably, it simply doesn't matter what those individual cost elements are because there was a meeting of the minds as to the "actual" cost of those employees for purposes of the contract."* In consideration of these facts, I cannot at this time support the conclusion or recommendation that the HAS attempt to compel the contractor to tender salary cost documentation.

### Recommendation 1

- Clark should refund overcharges and unsupported costs.
- HAS should seek to recover the amounts identified and institute an audit process of applications for payment for large long-term contracts.

Some of the costs referenced in the findings supporting Recommendation 1 we can agree to and the contractor has already signaled it will reimburse. In particular, we agree with the finding that payment of any escalation of rates under the agreement were not permitted and therefore should be reimbursed.

**Recommendation 2**

- Clark should retain necessary documentation to adequately support all changes to the Agreement, such as revisions to the salary rate schedules, and supporting documentation for change orders to subcontracts.
- HAS should implement procedures to monitor adherence to the change order process by its contractors, and should formally approve any changes in salaried contractor employees and rates listed in a rate schedule included as an exhibit to the Agreement.

**Response to Recommendation 2:**

We accept the conclusions and recommendations of Recommendation 2, and as cited in our response to Recommendation 1 above, we are in the process of bringing on board a program management consultant who will institute any required systems, processes and procedures, and provide training and expert personnel in the management of complex construction management agreements.

**Recommendation 3**

- Clark should provide a reconciliation of billed versus incurred (recorded) costs to show and validate a reasonable variance due to timing, and they should retain and maintain complete records of all sub-contractor bidding activity.
- HAS should institute specific procedures to monitor progress of long-term construction projects to include periodic reconciliations of actual costs incurred to billed costs. Additionally, HAS should formalize its monitoring of contractor document retention procedures on future projects.

**Response to Recommendation 3:**

We agree with Recommendation 3, and will instruct Clark to provide the information. Once on board, we will ask the program management consultant to perform an updated review of all documentation we have a right to receive under the contract and assure that it is fully reconciled.



Mario C. Diaz

MCD:ERP:kk

CC: David Schroeder  
Andy Icken  
Kirk Rummel  
Eric Potts