OFFICE OF
INTERNAL AUDIT

Audit Report

County Courthouse Expansion Preconstruction Management

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Highlights:

Why this audit was performed:

Estimated at $44 million dollars, the county courthouse expansion project is a high-visibility capital project that has been anticipated for over twenty years.

What was recommended:

We recommended that the Facilities Department:

- Implement a project management framework.
- Develop written policies and procedures using the framework.
- Improve contract and general condition templates for future construction contracts.

County Courthouse Expansion Preconstruction Management

The objective of the audit was to assess the effectiveness of the County in managing the courthouse expansion capital project prior to commencing construction. The focus was on cost estimates, procurement practices, project management techniques, and benchmarking against other capital projects.

What was found:

Estimated costs aligned with other Oregon courthouse construction projects. However, the final cost of the courthouse expansion will be known only after the structure is fully finished and occupied.

While the Facilities Department followed many best practices in project management, the project experienced delays to reach key preconstruction milestones. These delays could have been better anticipated and managed more effectively if the department had adopted a structured framework, policies, and procedures.

Cost control is crucial to ensuring the County maximizes the value of its investment in large capital projects. Undefined cost-control provisions in the construction contract decreased confidence that the County will fully optimize its future spending.

Although the department's requests for proposals emphasized the initiatives to support under-represented businesses, contract language did not reflect the commitment.

1. Introduction

The Deschutes County Audit Committee authorized the review of the County courthouse construction project in the Internal Audit Work Plan for 2024-2025. This report is anticipated to be the first of two audits in this area, with the future audit covering the construction and close-out phases. Audit objectives, scope, and methodology can be found in **Appendix A**.

Background

County Courthouse

The County courthouse property, located at the north end of the Downtown Bend business district, comprised three buildings: the AJ Tucker (Stone) Building, constructed in 1919; the original courthouse, built in 1940; and the main courthouse, completed in 1977. This construction project included an expansion of the main courthouse and demolition of the AJ Tucker Building.

The original three-story courthouse is 22,735 square feet and housed the Office of the District Attorney and State Court Administration. The three-story main courthouse, which underwent multiple previous renovations, totaled 51,300 square feet and includes seven courtrooms serving the nine judges of the 11th District Circuit Court for the State of Oregon. Circuit courts handle cases involving criminal, civil, domestic relations, traffic, juvenile, small claims, violations, abuse prevention, probate, mental commitments, adoption, and guardianship.

Original Courthouse Building

Conceptual drawing of the new courthouse addition *Courtesy LRS Architects*

The appointment of two judges in 2022 created the need to expand the main courthouse to meet the State Law requirements for counties to provide adequate courtrooms for Circuit Courts. The new three-story, 50,933 square foot addition will include two extra courtrooms, ensuring there is one courtroom for each judge. It will also feature court security screening, court administration offices, secure parking, and facilities for in-custody transport. Additionally, the main courthouse will be remodeled to integrate the new addition, adding a security office, hearing room, and expanded court administration offices.

Construction Project

In 2003, the County-Wide Facilities Master Plan introduced the idea of expanding the main courthouse. At the time, a consultant estimated the cost of a five-story expansion to be $15.3 million.

Anticipating the appointment of new judges and start of construction in 2022, the County assembled a project team in the fall of 2021, using conceptual drawings developed earlier that

year. The County's Facility Project Review Committee (Committee), consisting of community volunteers with expertise in real estate, construction, and project management, recommended the County use an owner's representative and a Construction Manager/General Contractor (CM/GC) method for construction.

Owner's representatives bring specialized expertise in project management, coordination, facilitation, and oversight to ensure the successful execution of construction projects.

When it comes to construction methods, three typical models are used:

- **Traditional Design-Bid-Build** where the owner contracts with an architect to design the plans, requests bids based on the plans, and contracts with a general contractor to complete construction.
- **Design-Build** combines architectural services with construction performance under one contract. Construction often starts before design completion, reducing project schedule.
- **Construction Manager/General Contractor** involves contracting with the architect and the general contractor around the same time to create a project team. The team coordinates design reviews, schedules, and cost estimates. Early collaboration and involvement lead to fewer design changes once construction starts.

The Board of County Commissioners accepted the Committee's recommendation and approved the requests for proposals to assemble the team, comprising of an Owner's Representative, an Architect/Engineer Firm, and a Construction Manager/General Contractor.

Table 1: Timing and initial cost of the project team contracting.

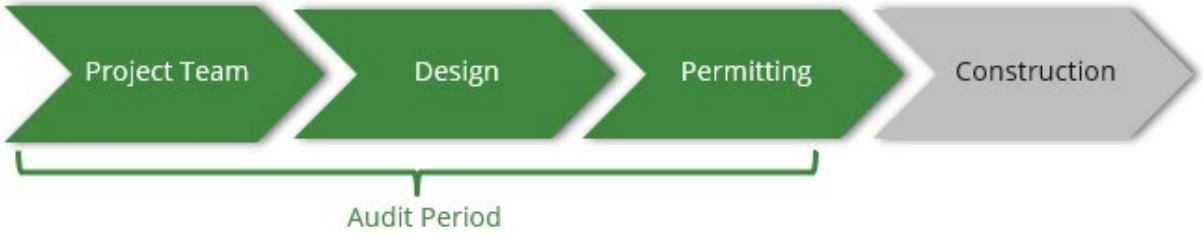
Project Team	Contract Effective Date	Initial Contract Amount
Owner's Representative: Cumming Management Group	December 27, 2021	$401,220
Architect/Engineer: LRS Architects	June 30, 2022	$2,500,397
Construction Manager/General Contractor: Pence Contractors LLC	July 25, 2022	$62,040

Source: County Financial Information

Regardless of the construction method, the phases required to design and construct a building follow traditional sequencing:

1. **Design Phase**: This phase is divided into four key stages:
    - **Programming**: This process establishes the overall scope, space needs, and preliminary budget for the project.
    - **Schematic Design**: Outlines the structure, arranging the project's scale, form, and spatial relationships.
    - **Design Development**: Refines the design by detailing structural systems, building systems, and materials.
    - **Construction Documents**: Completes the design process with precise construction drawings, specifications, and detailed documentation of the building.
2. **Permitting Phase**: Ensures that the project complies with the regulatory requirements of the City of Bend.
3. **Construction Phase**: Utilizes the construction documents to execute and complete the project.

Figure 1: Phases included in this audit.



The Facilities Department (Facilities) manages the development and execution of the construction project as part of their oversight of County-owned buildings and facilities. In recent years, they managed construction and remodel projects at the North Redmond Campus and Adult Parole and Probation.

[redacted]

Project Funding

Table 2: Funding sources.

State Commitment	
2022 Oregon Judicial Department Allocation	$2,000,000
2023 State Legislative Allocation	$15,000,000
County Commitment	
2023 American Rescue Plan Act Allocation	$5,000,000
2023 Bond Issuance	$20,500,000
Interest income	TBD
Campus Improvement Fund Reserves	Est. $1,500,000
Total	**$44,000,000**

Source: County Financial Information

The project is funded through a combination of state and county sources. In 2022, the State of Oregon Judicial Department allocated $2 million for renovations and furniture. In 2023, the Oregon Legislature approved an additional $15 million through Senate Bill 5506. The County Budget Committee also approved $5 million in American Rescue Plan Act funds, and the Board of County Commissioners authorized $20.5 million in debt financing, bringing the total to $42.5 million. Staff indicated that plans are to use interest income on these funds and budgeted campus

improvement fund reserves to cover the remaining funding to bring the project to the estimated cost of $44 million.

Construction Cost Estimates

Cost estimates for the courthouse project have increased since the 2003 Master Plan. The initial conceptual estimate of $15.3 million, adjusted for inflation, would now total $26.4 million.

As noted earlier, concept drawings for the 40,000-square-foot addition were completed in 2021, initially estimating the project cost at $27.2 million. However, as the design progressed—incorporating feedback from stakeholders such as court staff, Homeland Security, the Deschutes County Sheriff's Office, and Facilities during the programming phase—construction costs continued to rise significantly. This increase, estimated at 8%, far exceeded the historical average of 3%, reflecting the broader market escalation.

Once the programming was completed, the Board of County Commissioners approved the 50,933-square-foot three-story design, with the third floor remaining unfinished, leading to an estimated total cost of $40 million in January 2023.

In February 2024, the County executed a Guaranteed Maximum Price contract valued at nearly $37 million for the project's construction. This contract type sets a ceiling for construction costs, with the Construction Manager/General Contractor absorbing any additional expenses that exceed this limit. Ongoing design refinements and increasing costs raised the total project cost estimate to $44 million.

Cost Allocation

Construction costs are divided into hard and soft costs. Hard costs include expenses directly related to physical construction, such as labor, materials, systems installation, and landscaping. These costs generally constitute the majority of the project budget and are disbursed throughout the construction process. The Guaranteed Maximum Price contract controls these hard costs, serving as a risk mitigation strategy by setting a maximum

cost before construction begins. Soft costs, which cover indirect expenses like design, permits, insurance, and legal fees, are incurred mostly before construction starts and may continue to accrue beyond the construction phase.

Contingencies are extra amounts of money set aside in a budget to cover unexpected costs or problems that might come up during a project. Think of it like a safety net or a rainy-day fund. If something doesn't go as planned, like discovering an issue that needs fixing or prices going up, the contingency money is there to help pay for those extra expenses.

Table 3: Categorized costs leading to the total project budget.

Project costs by category	Contract Amounts
Direct Construction (Hard Costs)	$36,660,749
Permits, Fees, Consultants, etc. (Soft Costs)	$3,236,631
Contracted Totals	**$39,897,380**
Other Cost Estimates	$2,473,713
County Contingency	$1,698,463
Total Project Budget	**$44,069,556**

Source: County Financial Information

[redacted]

Project Management Body of Knowledge

The audit used the standards in the Project Management Body of Knowledge to evaluate County processes during the preconstruction phase. The Body of Knowledge is a comprehensive framework developed by the Project Management Institute to standardize project management practices and principles. It serves as a guide for project managers by outlining the fundamental aspects of project management, covering a wide range of knowledge areas and processes essential for successful project execution. The Body of Knowledge divides project management into twelve principles:

1. Be a diligent, respectful, and caring steward.
2. Create a collaborative project team environment.

3. Effectively engage with stakeholders.
4. Focus on value.
5. Recognize, evaluate, and respond to system interactions.
6. Demonstrate leadership.
7. Tailor based on context.
8. Build quality into processes and deliverables.
9. Navigate complexity.
10. Optimize risk responses.
11. Embrace adaptability and resiliency.
12. Enable change to achieve the envisioned future state.

Appendix B contains detailed assessments of how these principles were applied in this project.

2. Observations and Findings

The audit objectives were to evaluate Deschutes County's management of the courthouse expansion project prior to commencing construction for effectiveness. It sought to highlight areas for improvement and offer recommendations to strengthen management and oversight of future capital construction projects.

Several assessments and analyses were conducted to evaluate the courthouse expansion project, focusing on cost estimations, project management practices, procurement, and benchmarks to other capital projects.

While estimated costs for the courthouse expansion align with similar projects across Oregon, the final cost will only be determined once the new building is finished and fully occupied.

Despite the Facilities Department's adherence to many project management best practices, delays in preconstruction milestones highlight the need for a more structured framework and

comprehensive procedures.

Effective cost control remains critical to ensuring the County maximizes its investment, yet consolidated contract provisions undermine confidence in its ability to fully optimize value.

Furthermore, although the department emphasized supporting underrepresented businesses when evaluating proposals for the project team creation, the absence of substantiating contract language weakens its commitment to this initiative.

The report presents conclusions in two ways: observations and findings. Observations provide an informative overview of the project's execution without making any specific recommendations. The findings section identifies opportunities for the Facilities Department to strengthen future project management techniques and contractual requirements, based on the results of the assessment. These findings underscore the importance of continuous improvement in project management practices and contractual templates. By addressing these opportunities, the department can enhance its ability to manage complex projects effectively and deliver high-quality outcomes.

Observations

Construction costs were on par with other comparable projects.

Cost per square foot is a standard metric for evaluating construction projects. It represents the total cost of a project divided by the total square footage of the structure. The courthouse expansion project is expected to have costs similar to other recent courthouse construction projects in Oregon.

Table 4: Cost per square foot for other Oregon courthouse construction projects.
Inflation Adjusted

Project	Size	Budget	Cost/ sq. ft.
Multnomah County Courthouse (2017)	464,716 sq. ft.	$324 million	$1040*
Deschutes County Courthouse Expansion	**55,119 sq. ft.#**	**$44 million**	**$798**
Jefferson County Courthouse (2015)	30,300 sq. ft.	$15 million	$790*
Crook County Justice Center (not complete)	68,680 sq. ft.	$50 million	$728

size estimate includes both new construction and renovation areas
* Adjusted for inflation using the Mortenson Construction Cost Index (Portland) Q1 2024

There are two things to consider about this analysis:

1. The Deschutes County project is a renovation and expansion of an existing building, and the other projects were constructed on undeveloped land, also known as greenfield. Prices are typically lower for greenfield projects because they do not need to tie into existing facilities and have fewer space constraints.

2. Deschutes County project costs did not include finishing the third floor, though it is included in the square footage. As previously mentioned, in January 2023, the Board of County Commissioners approved a scope of work that included a finished basement, first, and second floor, while leaving the third floor as an unfinished shell space. To make the third floor usable and occupied, it will need to be completed in the future. The estimated cost at the time was $4 million, but future construction costs are likely to increase. The final cost to complete the building expansion will remain unknown until the space is needed.

In several aspects, Facilities exhibited effective project management practices.

During the assessment of project management best practices, according to the Body of Knowledge, Facilities demonstrated notable strengths in the following key principles:

Principle 1: Stewardship (partial)

The department excelled in managing relationships with external stakeholders, considering community impact, and advancing best practices through innovative approaches such as a life-size courtroom mockup to realize sightline improvements for the judge. These efforts ensured that the project was aligned with broader community and industry standards.

Principle 2: Project team (partial)

A strong emphasis was placed on department participation on project teams and committees. Regular participation in meetings fostered a collaborative project team environment, encouraging open communication and teamwork.

Principle 3: Stakeholders

The department effectively and consistently engaged with stakeholders, ensuring that their needs and concerns were addressed. This proactive engagement helped to build trust and support for the project.

Principle 4: Value

By aligning project objectives with the expected benefits, the department maintained a clear focus on delivering value. This alignment ensured that the project's outcomes were in line with the overall goals and provided tangible benefits.

Principle 5: Systems (partial)

The department closely monitored the deliverables to

ensure that the architect/engineer and construction manager/ general contractor met their contractual obligations for preconstruction.

Principle 6: Leadership

The department consistently showed leadership behaviors that supported team needs. Leaders were actively involved in guiding the project and addressing challenges, providing the support to keep the team motivated and focused.

Principle 7: Tailoring

The department applied a "just enough" process approach, tailoring project management practices based on the specific context. This flexibility allowed for efficient use of resources and adaptation to changing circumstances.

Principle 8: Quality

Quality was built into both the process and the deliverables. The department prioritized high standards throughout the preconstruction phase, ensuring that the final outcomes meet or exceed expectations.

Principle 11: Adaptability (partial)

Value engineering efforts found adaptable solutions while also reducing costs. An early work amendment was executed to anticipate supply chain issues with long lead items.

Principle 12: Enabling Change

By maintaining continued engagement, the department is facilitating a smooth transition to the future state. This ongoing involvement helped to manage changes effectively and support the project's long-term success.

These strengths contributed to the successful management of the project in many critical areas, ensuring that key preconstruction objectives were met and positions the project to deliver high-quality results. Refer to **Appendix B** for the assessment details of

key points under each principle.

Findings

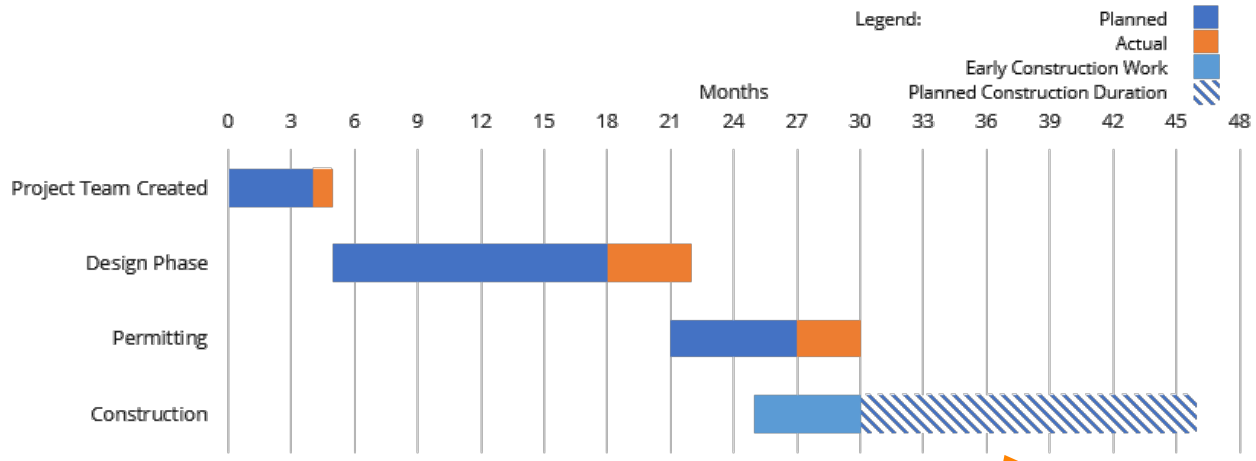
Project management techniques showed good practices, but gaps in planning and oversight were identified.

Despite the strengths shown, there remains room for improvement in project management. Key areas where best practices, as outlined in the Body of Knowledge, were not fully followed included recognizing systems interactions, managing project complexity, optimizing risk responses, embracing resilience, and defining project team responsibilities. These departures were reflected in issues related to scheduling, payments, and clarifying roles and responsibilities.

The project timelines did not proceed as initially expected.

Project schedules are a common metric for evaluating the success of planning efforts. The project experienced delays in all preconstruction phases, with none being completed according to the original duration. The preliminary project schedule was created in January 2022 to begin assembling the full project team. Both Facilities and the owner's representative anticipated construction would begin twenty months after the team was formed, with construction completed by the end of January 2025. Preliminary timelines set forth expectations for the project team to base their own proposed schedules and work force availability.

Figure 2: The actual schedule of construction phases.



Source: County Financial Information

Initial schedule had construction completed in 37 months.

The initial schedule had the selection of the architect/engineer and construction manager/ general contractor occurring over a four-month period, but the negotiations and contract approval process delayed the formation of the project team by one month. The design process was anticipated to take thirteen months but ran four months longer due to delays in each phase of design: programming, schematic design, design development, and construction documents. This was largely due to unexpected efforts needed to engage stakeholders, conduct budgetary reviews, and address the design complexity. During a project team meeting in July 2022, the architect/engineer projected construction documents would be completed by June 2023. The construction documents were not completed until November 2023.

Permitting delays also significantly affected the project schedule. Despite early engagement efforts by the project team, which led the City of Bend to indicate that permit review would be completed in 65 days (well below the city's reported average of 142 days for commercial projects),

actual timelines far exceeded expectations. Instead of trusting the reported time, the project team adjusted the schedule to a shorter permit review timeline and did not develop contingency strategies for an extended permit review, which ultimately disrupted the project schedule.

An analysis of the City's permit portal showed that early work projects typically received approvals in under 90 days. However, the site plan review process took 222 days—considerably longer than the city average—and the main construction permit required over 260 days from the initial submission.

Construction delays can arise due to various factors, both external and internal. External factors, such as permit delays, are beyond the control of the project team, while internal factors could include inadequate planning, ineffective communication, or lack of coordination among team members. The initial timelines did not incorporate the complexity of managing multiple stakeholders and the regulatory risks and challenges associated with permitting.

Effective project management practices are essential for developing accurate timelines and minimizing delays. This includes developing a comprehensive project plan, setting realistic timelines, and regularly monitoring progress. The Body of Knowledge highlights duration estimates as a key component of project planning, where one common method is to estimate durations using a range. Early in a project, these estimates tend to be broad because of limited information about scope, stakeholders, requirements, risks, and other factors. As the project progresses and more information becomes available, the range of estimates can be narrowed, reflecting increased confidence in the project's delivery timeline. The preliminary schedules did not incorporate any additional buffers or ranges to provide a more realistic estimate. The team regularly monitored the schedule and the effects of

delays, but even the adjusted schedules were not accurate enough to capture the project's complexities.

The risks arising from the complexity of the courthouse project could have been more effectively identified, assessed, and mitigated using a risk management tool known as a risk register. Although a risk register was initially developed by the owner's representative, its use was discontinued after a change in the project manager, leading to a breakdown in continuity and a gap in the project's formal risk management strategy.

Although there are no strict internal deadlines to complete the courthouse expansion, as public access to court services continues during construction, any delays expose the general contractor to inflationary pressures. These pressures could lead to construction change orders or additional expenses, ultimately driving up costs for the County.

Roles and Responsibilities

Facilities did not formally assign roles and responsibilities within the project team. Although the request for proposal for the owner's representative services outlined clear expectations, these were not included in the final contract and, therefore, were not considered binding. The County and the owner's representative were assigned similar authority levels in the construction contract documents, which could lead to decisions being made without proper oversight or the department's knowledge. Clearly defining roles and responsibilities is crucial to prevent overlaps, conflicts, and potential miscommunication within the project team. It is important to note that no conflicts or independent decisions have occurred.

Effective project management is imperative for large construction projects. Facilities did not have written project management procedures, leading to the gaps in best practices noted across planning, risk management, and payment reviews. Instead, the

department relied on the construction management expertise of its staff, both from their public service and previous roles. Developing written procedures would establish clear guidelines, clarify areas of risk, and help ensure smooth staff transitions for continuity and efficiency. Several construction project management frameworks, besides the Body of Knowledge, could offer Facilities a more structured approach to planning, executing, and managing projects. The department has indicated that they are in the process of creating standard operating procedures.

1. ***The Facilities Department should implement a comprehensive pre-construction planning and risk management framework.***

2. ***The Facilities Department should develop and implement comprehensive policies and procedures to strengthen guidelines and oversight for capital projects.***

   Note: This recommendation was also made in a 2010 Office of County Internal Audit report on Facility construction management. Although Facilities initially agreed with the recommendation, it was later deemed unnecessary, and the suggested changes were not implemented. Since then, the department has undergone leadership changes.

General language in construction contracts increased risk and undermined socio-economic initiatives.

Contracts are designed to protect the County's interests. While the construction manager/ general contractor contract met the legal requirements outlined in Oregon Revised Statute Chapter 279C, it could have benefited from greater specificity in key areas of cost control. Contract provisions related to labor and material costs were summarized in a way that limited the County's ability to define and manage costs with the necessary level of detail. This can present challenges in fully identifying and managing cost components.

Additionally, contract language did not reflect the department's efforts in supporting under-represented business owners. There

was language in procurement documents, but was not reflected in the contract language, beyond the requirement to replace a certified under-represented subcontractor with another similarly certified business.

The contract did not include:

- Clear definitions of the cost of work

  Example: Defining allowable labor costs including overtime policies, small tools and consumables costs, rental equipment reimbursement guidelines, and handling of off-site storage costs.

- Procedures for the managing excess materials

  Example: Establishing protocols for the sale of recyclables or scrap materials with proceeds credited to the owner.

- Requirements for crediting rebates or discounts to the owner

  Example: Outlining the process for crediting trade discounts, insurance policy discounts, or rebates, dividends, or refunds from performance and payment bonds directly to the owner.

- Policies for reallocating cost underruns

  Example: Transferring cost savings or underruns into an owner-controlled contingency fund, rather than applying them as a contract credit or bonus.

- Obligations to notify the owner about the use of contingency funds

  Example: Providing notification and detailed justification to the owner whenever contingency funds are used to cover changes or unforeseen conditions in the work.

- Procedures when limited competitive subcontractor bids are available

  Example: Establishing criteria for owner review and approval when only one subcontractor submits a bid to ensure competitiveness and cost-effectiveness.

- Provisions ensuring equity in subcontracting

  Example: Requiring monthly reporting of certified subcontractors service providers.

Several inconsistencies in adhering to contract language were noted during the audit, not only in the construction manager/general contractor contract, but the other major contracts as well. Specifically, detailed receipts with supporting documentation were not consistently provided for reimbursable expenses, with 86% of invoices from the architect/engineer and 33% from the owner's representative lacking sufficient backup documentation. Although the reimbursable expenses are minor in comparison to the overall project cost (approx. $5,000), proper documentation is crucial for financial accountability and preventing unauthorized reimbursements.

Additionally, a clerical error occurred in the contract language regarding insurance coverage indicating that the construction manager/general contractor was underinsured. Management has assessed the current coverage as sufficient and plans to amend the contract to reflect standard coverage limits.

Finally, the life-size courtroom mockup project was performed without being included in the initial scope of work under the construction manager/ general contractor preconstruction services contract or through contract amendment. This work was carried out without assurance of payment and in the end, documented in the early work agreement five months later. Written agreements are essential for defining the scope and cost of work, preventing misunderstandings, and avoiding unapproved expenses.

The absence of clear and definitive contract language exposed the County to significant risks, including potential overpricing and reduced value. Inconsistent accuracy in contract terms and weak cost oversight further eroded confidence that adequate resources were being dedicated to thoroughly review and monitor project expenses. Moreover, the lack of explicit provisions on equity in subcontracting missed a crucial opportunity to promote diverse

and inclusive service providers, sending an inconsistent message about the department's initiative in supporting underrepresented business owners.

County Legal reviews contracts to ensure they comply with legal requirements, but it is the department's responsibility to ensure the contract language is comprehensive. County Legal is available for consultation to help departments improve their contracts. Recently, the Road Department updated their contract templates to address all critical areas, reducing potential risks to the County. Facilities could benefit from following a similar process.

3. ***The Facilities Department should coordinate with County Legal to create a construction manager/general contractor contract and general conditions template with enhanced cost controls and consistent equity support.***

3. Conclusion

The audit of Deschutes County's courthouse expansion project highlights both strengths and areas for improvement in the Facilities Department's approach to managing capital construction projects. While cost estimations were consistent with similar projects across Oregon, the project's ultimate financial success hinges on its completion. The department's adherence to many best practices demonstrated a commitment to effective project management, yet gaps in preconstruction planning and risk management revealed the need for a more structured framework.

To ensure future projects achieve their full potential, the department must prioritize the development of clear, comprehensive procedures for cost control and contract oversight. Strengthening contract provisions, particularly those related to preventing overpayment, are critical to building trust in

the County's procurement practices and reinforcing the department's commitment to equity.

By implementing the recommendations from this audit, Deschutes County can better safeguard its investments and deliver more efficient, inclusive, and successful capital projects in the future.

4. Management Response

FACILITIES DEPARTMENT

September 18, 2024

To: Elizabeth Pape, County Internal Auditor

From: Lee W. Randall, Director

Subject: Management's Response to Audit Report

This letter provides the Facilities Department written response to the County Courthouse Expansion Preconstruction Management Audit Report. The Auditor's recommendations from the Report and the Department's responses are listed below.

<u>Recommendation 1:</u> The Facilities Department should implement a comprehensive pre-construction planning and risk management framework.

a) Management position concerning recommendation:

☑ Concurs ☐ Disagree

b) Comments:

We agree with the auditor's recommendation, and the Facilities Department will implement a comprehensive pre-construction planning and risk management framework to better anticipate schedule impacts resulting from project complexity, stakeholder engagement, budget reviews, and regulatory compliance.

In response to audit findings leading to this recommendation, we would like to provide additional background on three items related to schedule delays. First, the extraordinary construction cost environment driven by inflation and supply chain disruption led to additional budgetary reviews in the design phase of the project which delayed the issuance of subsequent sets of project plans—an effect that would have been difficult to anticipate. Second, the project team utilized the estimated permit review duration provided by City staff based on direct statements in the pre-application meeting when staff reported that review times in the City online portal were inaccurate, no longer applicable, and should not be relied upon. Consequently, instead of using the reported portal times the project team used the shorter durations relayed to them by City staff and relied upon their assurances that permit review times for new projects entering the portal would be significantly shorter. Finally, the project team did utilize a contingency strategy in response to the extended review times which included separating out early work and demolition permits to allow for certain phases of work to begin prior to the building and infrastructure permits being issued.

c) Estimated date of resolution: May 1, 2025

d) Estimated cost to implement recommendation: Facilities staff time, training, and costs to purchase project management framework publications

<u>Recommendation 2:</u> The Facilities Department should develop and implement comprehensive policies and procedures to strengthen guidelines and oversight for capital projects.

a) Management position concerning recommendation:

☑ Concurs ☐ Disagree

b) Comments:

We agree with the auditor's recommendation, and the Facilities Department will implement written project management procedures to establish clear guidelines for comprehensive project planning and risk identification, and formally assigning roles and responsibilities within the project team.

c) Estimated date of resolution: May 1, 2025

d) Estimated cost to implement recommendation: Facilities staff time, training, and costs to purchase project management framework publications

<u>Recommendation 3:</u> The Facilities Department should coordinate with County Legal to create a construction manager/general contractor contract and general conditions template with enhanced cost controls and consistent equity support.

a) Management position concerning recommendation:

☑ Concurs ☐ Disagree

b) Comments:

We agree with the auditor's recommendation, and the Facilities Department will create a construction manager/general contractor contract and general conditions template. The department will coordinate with Administration and Legal on which elements will be included to most effectively incorporate this recommendation.

c) Estimated date of resolution: May 1, 2025

d) Estimated cost to implement recommendation: Facilities staff time, County Legal staff time, and training

Sincerely,

Lee W. Randall, Director

5. Appendix A: Objective, Scope, and Methodology

The County Internal Auditor was created by the Deschutes County Code as an independent office conducting performance audits to provide information and recommendations for improvement.

The audit included limited procedures to understand the systems of internal control around capital construction. Audit findings result from departures from prudent operation. The findings are, by nature, subjective. The audit disclosed certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in the report may not be all-inclusive of areas where improvement may be needed and does not replace efforts needed to design an effective system of internal control.

Management has responsibility for the system of internal controls, including monitoring internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. Internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved.

Objectives and Scope

"Audit objectives" define the goals of the audit.

The audit objective was to determine whether the county effectively managed the courthouse expansion capital project prior to commencing construction.

Scope included contracts in place for the courthouse expansion project as of March 2024. The scope was limited to preconstruction services provided up until the demolition of the AJ Tucker building. Any construction activity, contracts, or amendments after that event were not included in the assessment.

Methodology

Audit procedures are created to address the audit objectives.

Audit procedures included:

- Assessment of the effectiveness of project management efforts during the pre-construction phase compared to best practices identified in the Project Management Institute's Guide to Project Management Body of Knowledge.
- Evaluation of processes for selecting, contracting, and managing contractors during the pre-construction phase, ensuring compliance with contractual obligations and requirements.
- Evaluation of processes for selecting, contracting, and managing subcontractors during the pre-construction phase, ensuring compliance with contractual obligations and quality standards.
- Interviews of selected departmental management and staff.
- Benchmarking the County courthouse expansion procurement process and contracts against other local capital projects.
- Reviewing compliance with state regulations and requirements for public contracting.

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

(2018 Revision of Government Auditing Standards, issued by the Comptroller General of the United States.)

6. Appendix B: Body of Knowledge Assessment

How the Office of County Internal Audit assessed alignment with the key aspects of the principles identified within the Project Management Institute's Body of Knowledge.

Principle 1. Be a diligent, respectful, and caring steward. Stewards act responsibly to carry out activities with integrity, care, and trustworthiness while maintaining compliance with internal and external guidelines.		
Key point	**Assessment**	**Icon**
Internal responsibilities for stewardship:		
Operating in alignment with the organization, its objectives, strategy, vision, mission, and sustainment of its long-term value	Project was identified as a need to continue its legal obligation to provide court space under ORS001.	✓
Commitment to and respectful engagement of project team members	Project team has presented several times in front of the Board of County Commissioners and the Facilities Project Review Committee.	✓
Diligent oversight of organizational finances, materials, and other resources used within the project	Gaps in oversight of reimbursable expenses noted – See Finding Section.	✗

Principle 1. Be a diligent, respectful, and caring steward. Stewards act responsibly to carry out activities with integrity, care, and trustworthiness while maintaining compliance with internal and external guidelines.		
Key point	**Assessment**	**Icon**
Understanding the appropriate use of authority, accountability, and responsibility, particularly in leadership positions.	Leadership accepts responsibility and authority.	✓
External responsibilities for stewardship:		
Environmental sustainability and the organizations use of materials and natural resources	Compliance with local and state building codes; value engineering exercises to eliminate waste.	✓
Organizations relationships with external stakeholders	Stakeholder engagement efforts included all jurisdictions.	✓
Impact of the organization on the market, social community, and regions in which it operates	Programming phase identified the impacts to the community and region.	✓
Advancing the state of practice in professional industries.	Lifesize mockup of courtroom prior to construction was a unique exercise.	✓

Principle 2. Create a collaborative project team environment. Project teams are made up of individuals who wield diverse skills, knowledge, and experience.		
Key point	**Assessment**	**Icon**
Definition of roles and responsibilities	Responsibilities of the entire project team is not defined in either a business case document or contract – See Findings Section.	✗
Allocation of employees into project teams	Facilities staff were incorporated into the team and actively participated.	✓
Formal Committees tasked with a specific objective	Facilities project review committee is receiving regular updates.	✓
Standing meeting that regularly review a given topic	Project team meetings have occurred regularly for the past two years.	✓

Principle 3. Effectively engage with stakeholders. Engage stakeholders proactively and to the degree needed to contribute to project success. Stakeholders can affect many aspects of a project, including but not limited to:		
Key point	**Assessment**	**Icon**
Scope/requirements	Decision-makers altered scope/requirements based on long-term costs.	✓
Schedule	Schedule has been continually adjusted as information is available and communicated to stakeholders.	✓

Principle 3. Effectively engage with stakeholders. Engage stakeholders proactively and to the degree needed to contribute to project success. Stakeholders can affect many aspects of a project, including but not limited to:		
Key point	**Assessment**	**Icon**
Cost	Cost reduction efforts were made during the project in coordination with stakeholders.	
Project Team	Project team established collaborative communication process with stakeholders.	
Plans	Decision-makers were provided plans and understood impact when deciding size and scope.	
Outcomes	Programming documents created to proceed with design phase, and ultimately the construction phase.	
Culture	Encouraging engagement with the community.	
Benefits realization	Full project scope and schedule shared with stakeholders for long-term goals.	
Risk	Insurance and bonding requirements on the project protect the county and stakeholders from financial risks.	

Principle 3. Effectively engage with stakeholders. Engage stakeholders proactively and to the degree needed to contribute to project success. Stakeholders can affect many aspects of a project, including but not limited to:		
Key point	**Assessment**	**Icon**
Quality	County standard construction requirements ensure consistent quality.	✓
Success	Stakeholder interaction has been positive, although no defined measures were created.	✓

Principle 4. Focus on Value. Continually evaluate and adjust project alignment to business objectives and intended benefits and value.		
Key point	**Assessment**	**Icon**
Business Case development	Most elements identified in final programming documentation.	✓
Changes and adaptation	Team has evaluated scope changes and adjusted accordingly.	✓
Value engineering	Team has consistently applied efforts to provide value in products.	✓
Early benefit realization	Planning and programming efforts to maximize benefits of the project.	✓

Principle 5. Recognize, Evaluate, and Respond to System Interactions. Recognize, evaluate, and respond to the dynamic circumstances within and surrounding the project in a holistic way to positively affect project performance. Systems thinking also considers timing elements of systems, such as what the project delivers or enables over time. On a large construction project, a change in requirements can cause contractual changes with the primary contractor, subcontractors, suppliers, or others, in turn, those changes can create an impact on project cost, schedule, scope, and performance. Project teams should think beyond the end of the project to the operational state of the project's deliverable, so that intended outcomes are realized.		
Key point	**Assessment**	**Icon**
Deliverables	The architect/ engineer and construction manager/ general contractor met their contractual obligations for pre-construction.	✓
Overall Outcome	The overall project cost and schedule has been impacted delays and complexity - See Finding Section.	✗

Principle 6. Demonstrate leadership behaviors. Demonstrate and adapt leadership behaviors to support individuals and team needs.		
Key figure	**Assessment**	**Icon**
Facilities Department Head	Department head has actively supported and participated in the project.	✓
Capital Improvement Manager	Capital improvement manager has actively supported the team and the department.	✓

Principle 7. Tailor based on context. Design the project development approach based on the context of the project, its objectives, stakeholders, governance, and the environment using "just enough" process to achieve the desired outcome while maximizing value, managing cost, and enhancing speed.		
Key point	**Assessment**	**Icon**
Maximizing Value	Value engineering and cost estimates to maximize value have occurred.	
Managing Costs	Project is still on budget.	
Enhancing Speed	Schedule has been iteratively tailored and adapted to changing dynamics.	

Principle 8. Build quality into processes and deliverables. Maintain a focus on quality that produces deliverables that meet project objectives and align the needs, uses, and acceptance requirements set forth by relevant stakeholders.		
Key point	**Assessment**	**Icon**
Performance	The permitting submittals identify individual elements of quality products meeting regulations.	
Conformity	Stakeholder engagements and decision makers set the best use of funding and space.	

Principle 8. Build quality into processes and deliverables. Maintain a focus on quality that produces deliverables that meet project objectives and align the needs, uses, and acceptance requirements set forth by relevant stakeholders.		
Key point	**Assessment**	**Icon**
Resilience	Resilience in design with backup generators to power key portions of the building.	✓
Uniformity	County standard construction requirements ensure consistent quality.	✓
Sustainability	Positive impact on economic, social, and environment.	✓

Principle 9. Navigate complexity. Continually evaluate and navigate project complexity so that approaches and plans enable the project team to successfully navigate the project life cycle.		
Key phase of the project	**Assessment**	**Icon**
Programming	Programming included site tours, surveys, and stakeholder engagement over four months to navigate the complexity using various inputs, two months longer than planned - See Finding Section.	✗

Principle 9. Navigate complexity. Continually evaluate and navigate project complexity so that approaches and plans enable the project team to successfully navigate the project life cycle.		
Key phase of the project	**Assessment**	**Icon**
Design	The complexity of designing a large-scale project and incorporating systems into the existing building took three months longer than expected - See Finding Section.	✗
Permitting	The complexity of dealing with an external organization regulating competing commercial projects caused additional delays - See Finding Section.	✗

Principle 10. Optimize Risk Responses. Continually evaluate exposure to risk to maximize positive impacts and minimize negative impacts to the project and its outcomes.		
Key phase of the project	**Assessment**	**Icon**
Programming	Risk register exercise to identify, assess, and mitigate potential risks was not completed - See Finding Section.	✗
Design	Project team meetings to discuss risks in design were successful (elimination of alcoves/dead space).	✓

Principle 10. Optimize Risk Responses. Continually evaluate exposure to risk to maximize positive impacts and minimize negative impacts to the project and its outcomes.		
Key phase of the project	**Assessment**	**Icon**
Permitting	The approval process took longer than indicated and longer than the average reported commercial permit approval time. Response to multiple possible outcomes was not formally evaluated - See Finding Section.	✗

Principle 11. Embrace Adaptability and Resiliency. Build adaptability and resiliency into the approaches to help the project accommodate change, recover from setbacks, and advance the work of the project.		
Key point	**Assessment**	**Icon**
Accommodate Change	Value engineering efforts found adaptable solutions. An early work amendment was executed to anticipate issues with long lead items.	✓
Absorb impacts	Mechanisms to limit lags and absorb delays were not built into the initial schedule - See Finding Section.	✗

Principle 11. Embrace Adaptability and Resiliency. Build adaptability and resiliency into the approaches to help the project accommodate change, recover from setbacks, and advance the work of the project.		
Key point	**Assessment**	**Icon**
Recover from setbacks	Setbacks have resulted in delayed completion; options still exist to accelerate construction but have yet to be finalized.	

Principle 12. Enable change to achieve the envisioned future state. Prepare those impacted for the adoption and sustainment of new and different behaviors and processes required for the transition from the current state to the intended future state.		
Key point	**Assessment**	**Icon**
Stakeholders	Multiple engagements to prepare stakeholders for the transition to a new building.	
Renovation	Continued engagement with court staff to prepare for renovation of existing space.	

The mission of the Office of Internal Audit is to improve the performance of Deschutes County government and to provide accountability to residents. We examine and evaluate the effectiveness, efficiency, and equity of operations through an objective, disciplined, and systematic approach.

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