



# Department of Corrections: Madras Correctional Facility Construction Contract Review

## Summary

Charles A. Hibner, Director, Audits Division

Bill Bradbury, Secretary of State

# Secretary of State Audit Report

### PURPOSE

We reviewed the pre-construction and early work phases of the Department of Corrections (department) Madras correctional facility construction project. The purpose of our audit was to determine if project costs, change orders, and contract amendments were in accordance with contract terms and if payroll, equipment rentals, and travel costs were reasonable.

### BACKGROUND

The department is currently constructing the new Madras minimum and medium security correctional facility to accommodate a growing prison population. The department received legislative approval in 2005 for \$190 million to construct the facility; as of September 2005, close to \$5 million of pre-construction and early work was completed. Pre-construction and early work are the first phases of the construction project; we chose to review these phases so the department may implement opportunities for improvement for the remainder of the project. This audit is the first in a series of construction audits to be completed by the Oregon Secretary of State Audits Division.

### RESULTS IN BRIEF

We found that for the pre-construction and early work phases of the Madras correctional facility construction project, change orders and contract amendments reviewed were in accordance with contract terms. We also found that payroll, equipment rentals, and travel costs paid generally complied with contract terms and were reasonable. However, we did find the department reimbursed the contractor approximately \$10,500 for hours claimed that did not agree to contractor employee timesheets and payroll rates higher than contracted rates.

### RECOMMENDATIONS

**We recommend** the department seek reimbursement for payroll overcharges.

**We also recommend** the department develop and implement procedures requiring the following:

- Periodic and regular review of contractor's payroll timesheets to ensure the number of labor hours billed does not exceed the documented number of hours worked.
- Periodic and regular comparison of billed labor rates to contracted labor rates.

### AGENCY'S RESPONSE

The Department of Corrections generally agrees with the recommendations.

## Introduction and Background

According to the Office of Economic Analysis (OEA), which forecasts the State's prison population, the number of inmates in the State's facilities will increase to approximately 14,300 by July 2007, a population growth of approximately 1,500 from July 2004. The Department of Corrections (department) is currently constructing a new minimum and medium security correctional facility in Madras, Oregon in order to accommodate the growing prison population. The new site will have approximately 2,100 beds.

The department began site preparation for the Madras facility in 2002; however, due to state budgetary constraints, construction of the buildings was put on hold. The department then received legislative approval in 2005 for \$190 million to resume and complete construction of the project. The \$190 million is designated for construction of the correctional facility, off-site infrastructure, project administration, and a 6 percent contingency fund. Contingency funds are used for unexpected costs, such as an increase in materials costs or project scope change, incurred during the course of the project.

The department entered into a contract to construct the facility at a cost up to, and no more than, \$121 million. Monthly payments to the construction contractor (contractor) are contingent on the department construction manager's approval of individual receipts verifying actual project costs. As of September 2005, close to \$5 million of pre-construction and early work was completed. Pre-construction and early work are the first phases of the project, and are included in the \$121 million

contract between the department and the contractor. Changes to the contract may be made through contract amendments and change orders.

## Audit Results

We reviewed all payments to the contractor totaling approximately \$5 million, and all contract amendments and change orders available from August 2002 through September 2005. Our review included a detailed review of all payroll, equipment rental, and travel costs. We chose to review the pre-construction and early work phases so the department may implement opportunities for improvement for the remainder of the project. This audit is the first in a series of construction audits to be completed by the Oregon Secretary of State Audits Division.

We found that for the pre-construction and early work phases of the project, change orders and contract amendments were in accordance with contract terms.

We also found that payroll, equipment rentals, and travel costs paid generally complied with contract terms and were reasonable. However, we did find instances where contractor payroll reimbursements exceeded amounts on employee timesheets and contracted payroll rates.

### Some Payroll Reimbursements Exceed Hours Worked and Allowable Rates

We found the department reimbursed the contractor approximately \$10,400 for hours claimed that did not agree to contractor employee timesheets. We also found instances in which the hourly rate paid for one employee exceeded the allowable contract rate, totaling \$100 in overcharges.

The project contract states that the department is to pay the contractor for "only those actual costs necessarily and reasonably incurred by" the contractor. Labor charges should represent costs for actual hours worked, and at rates agreed upon between the department and contractor. We reviewed 122 contractor timesheets provided to us as support for approximately \$180,000 of payroll reimbursements made by the department.

We found 10 instances, totaling approximately \$10,400 (nearly 6 percent of payroll costs reimbursed) in which the hours claimed for reimbursement did not agree to employee timesheets. For eight of the 10, the number of hours claimed exceeded those reported on employee timesheets, resulting in approximately \$11,040 of overcharges. For the remaining two instances, hours charged were less than hours reported on employee timesheets, resulting in an undercharge of approximately \$600. Most of the incorrect payroll charges occurred at the beginning of the project in 2002; we found one instance of overcharges in April 2005.

The total estimated cost for contractor employees for the entire project is estimated at \$2.6 million. If the excessive payroll charges were to continue at the 6 percent rate, the department could be overcharged approximately \$140,000 more for the project.

In addition, we found instances where the department paid the contractor for payroll hours billed for one employee at a \$55 per hour rate, when the rate stated in the contract is \$50 per hour. An amendment to the contract increasing the hourly rate was signed May 2005, while the higher rate was paid between March and May of 2005.

## Procedures For Review of Contractor Invoices Limited

While the department has procedures to review contractor invoices, it does not have procedures to review contractor employee timesheets, nor does it consistently review billed labor rates.

During our review of contractor invoices, we found timesheets for employees performing pre-construction and early work labor were not included as support documentation, or verification, for payroll costs. According to department management, it does not require the contractor to include timesheets as support for payroll costs, and therefore does not review them.

In addition, we learned the department is familiar with contracted labor rates and uses this knowledge when reviewing the accuracy of labor charges. However, it does not regularly compare labor rates as stated in the contract to individual payroll amounts billed the department.

## Recommendations

**We recommend** the department seek reimbursement for payroll overcharges.

### *Agency's Response:*

*The Department agrees with the recommendation. The Department will seek reimbursement for all overpayments to the contractor.*

**We also recommend** the department develop and implement procedures requiring the following:

- Periodic and regular review of contractor's payroll timesheets to ensure the number of labor hours billed does not exceed the documented number of hours worked.

- Periodic and regular comparison of billed labor rates to contracted labor rates.

### *Agency's Response:*

*The Department agrees with the recommendation. The Department will institute periodic and regular reviews of billed payroll and contract labor charges.*

## Objectives, Scope and Methodology

We reviewed the pre-construction and early work phases of the Department of Corrections (department) Madras correctional facility construction project. The purpose of our audit was to determine if project costs, change orders, and contract amendments were in accordance with contract terms and if payroll, equipment rentals, and travel costs were reasonable.

The scope of our audit included all payments made during the early work and pre-construction phases of the project through September 2005.

We reviewed the Department of Administrative Services' contracting policies and procedures, relevant *Oregon Revised Statutes* and Administrative Rules. We also reviewed the Request for Proposal and the final project contract, amendments and the one change order existing through September 2005.

We reviewed all supporting documentation provided by the contractor for all monthly Applications for Payments. We also used monthly department bank statements, contractor timesheets, and copies of checks from the contractor to its subcontractors for comparison to monthly Applications for Payment to ensure accuracy of charges.

We interviewed department and contractor personnel to gain an

understanding of contracting and payment approval processes.

We conducted fieldwork from August 2005 to December 2005. We conducted this audit in accordance with generally accepted government auditing standards.



**Secretary of State  
Audits Division**

**255 Capitol St. NE, Suite 500  
Salem, OR 97310**

**Auditing to Protect the  
Public Interest and Improve  
Oregon Government**

AUDIT MANAGER: *Sandra K. Hilton, CPA*

AUDIT STAFF: *Terri Preeg Riggsby, MPA  
Karen Peterson  
Jessica Briz*

*The courtesies and cooperation extended by the officials and staff of the Department of Corrections were commendable and much appreciated.*

*This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from our website on the internet at:*

*<http://www.sos.state.or.us/audits/audithp.htm>*

*by phone at 503-986-2255*

*or by mail from:*

*Oregon Audits Division  
255 Capitol Street NE, Suite 500  
Salem, OR 97310*