PORTLAND DEVELOPMENT COMMISSION:
Management of on-call contracts inconsistent with Commission expectations

January 2016

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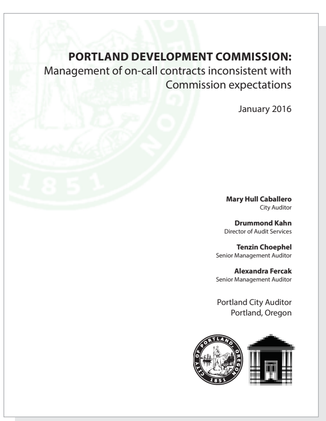
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January 13, 2016

TO: Mayor Charlie Hales
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Steve Novick
Commissioner Dan Saltzman

Tom Kelly, Chair, Portland Development Commission
Aneshka Dickson, Vice Chair, Portland Development Commission
Gustavo J. Cruz Jr., Commissioner, Portland Development Commission
Mark Edlen, Commissioner, Portland Development Commission
William Myers, Commissioner, Portland Development Commission
Patrick Quinton, Executive Director, Portland Development Commission

SUBJECT: Audit Report – *Portland Development Commission: Management of on-call contracts inconsistent with Commission expectations* (Report #474)

The attached report contains the results of our audit of the Portland Development Commission's on-call contracts.

We appreciate the cooperation of the Commission during the course of the audit. We will follow up in one year with the Mayor and the Commission for a status report detailing steps taken to address the audit recommendations.

Mary Hull Caballero
Mary Hull Caballero
City Auditor

Audit Team: Drummond Kahn
Tenzin Choephel
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Erin Dickmeyer

Attachment

PORTLAND DEVELOPMENT:
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Summary

We audited the Portland Development Commission's processes to plan, administer, distribute, and report on its on-call contracts at the request of management. We found on-call contracts need to be more effectively and equitably managed in four ways:

1. Enhance planning to minimize unused contracts, maximize administrative efficiencies and best represent the Commission's needs to the contracting community.
2. Improve contract administration to better detect when contract terms are not met – an area where our audit results amplify previously reported weaknesses.
3. Increase oversight for the fair distribution of on-call contract dollars with a preference for firms certified as minority-owned, women-owned, or emerging small businesses.
4. Better reporting of progress toward Business Equity Program goals to use certified firms.

We recommend ways for the Commission to focus on improvements in these areas. Ultimately, more effective and equitable practices will help the Commission make progress toward objectives in its strategic plan.

Background

Effective and equitable management of on-call contracts is necessary to meet the Commission's objectives

The Portland Development Commission has business needs for outside contracts, ranging from real estate appraisals to landscape architecture services. Rather than going through an extensive contracting process each time the Commission needs these repeated services, it uses "on-call contracts" to establish an approved list of contractors, and then uses the pre-approved contractors as needed. These competitively solicited price agreements are an important contracting mechanism. They were used for about $1.2 million in professional services during fiscal year 2015, out of $7 million of total procurement activity and $63 million of non-personnel spending.

To obtain the best value for the public, the Commission needs to effectively administer on-call contracts and fairly distribute work to all qualified contractors within a service category. These expectations are described in the Commission's contracting manual which distinguishes responsibilities assigned to the central Professional Services section from that of project managers located throughout the organization. The manual also states a general preference should be given to firms certified as disadvantaged businesses, minority-owned businesses, women-owned businesses, and emerging small businesses. These expectations connect on-call contracting practices to objectives adopted in the Commission's strategic plan, as shown in Figure 1.

Figure 1 Link between on-call contracting and strategic objectives

On-call contract expectation		Related outcome		Strategic objective
Effective contract administration	→	Effective management and governance Financial sustainability and stewardship	→	Operate an equitable, innovative and financially sustainable agency
Fair distribution with preference for certified firms	→	Equitable construction and contracting	→	Foster wealth creation within communities of color and low-income neighborhoods

Source: Audit Services Division analysis of Portland Development Commission Strategic Plan 2015-2020

Note: Audit period includes Commission's prior and current strategic plans. For the Strategic Plan 2010-2014, the on-call contract expectations and practices are under goals for "Effective Stewardship Over Resources and Operations, and Employee Investment" and "Social Equity."

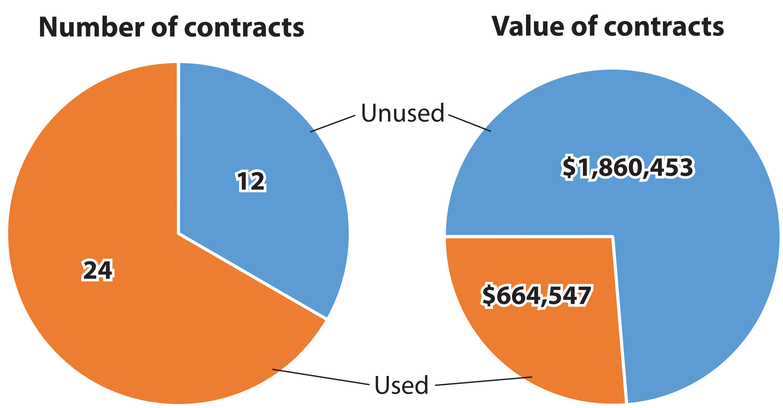
Audit Results

PLANNING: Unused on-call contracts may impact efficiencies for the Commission as well as its contractors

The efficiencies associated with on-call contracts are maximized when they are actually used. Both the Commission and its contractors make up-front investments in time and resources to establish on-call contracts. Commission staff plan for contracting needs, complete the formal solicitation process, and select firms for contract awards. Likewise, businesses take the time to submit proposals and – for those awarded a contract – meet contractual requirements and provide estimates for timeframes and total costs once Commission staff request services.

The Commission continues to invest the time and resources to set up on-call contracts, but we found that the use associated with them fell over the past five years. During this period, staffing and spending at the Commission decreased in response to downsizing. In addition, payment data shows that an increasing proportion of on-call contracts – both by number and by maximum award value – go unused. A snapshot for on-call contracts expired in 2015 is shown in Figure 2. In each of the last two fiscal years, about one-third of the number of expired on-call contracts went unused, reflecting about $2 million in unused dollar value.

Figure 2 Used and unused expired on-call contracts, 2015



Source: Audit Services Division analysis of Portland Development Commission data

We also found that some service categories went completely or mostly unused during the three-year contract period. Of the 17 service categories that expired in fiscal years 2014 and 2015, there was no contract activity in three of them. In another six categories, half or more of the contracts were not used, as shown in Figure 3. In dollar terms, more than half of the award value went unused in 12 categories.

Figure 3 Use of expired on-call contracts by service category

On-call service category	Number of contracts in category	Percent of contracts used	Percent of award value used
Real Estate Appraisal	5	100%	68%
Environmental	10	100%	64%
Real Estate Landscape Maintenance	2	100%	53%
Survey	4	100%	31%
Property Maintenance	1	100%	27%
Economic Development	6	83%	60%
Small Developer Assistance	6	83%	28%
Equity Facilitator	10	70%	27%
Temporary Staffing - Information Technology	2	50%	56%
Landscape Architecture	6	50%	30%
Real Estate Advising/Consulting	2	50%	23%
Outreach, Meeting Facilitation & Event Planning	5	40%	28%
Urban Design	5	40%	14%
Real Estate Brokerage	4	25%	1%
* Construction Management & Cost Estimation	1	0%	0%
Property Leasing	3	0%	0%
Relocation	2	0%	0%

Source: Audit Services Division analysis of Portland Development Commission data

Note: On-call contracts expired during fiscal years 2014 and 2015.

* According to PDC, the expired contract in this category was due to the contractor choosing not to extend the contract. The other eight contracts were extended to April 2016. As of June 2015, four of these eight unexpired contracts were used, representing 15 percent of the award value.

When planning for future on-call contracts, Professional Services could better address this discrepancy between potential and actual on-call contract use. For example, the number or value of contract awards could be reduced. The manual includes a brief reference to the criteria for establishing a service category and that the award amount is determined by anticipated usage. Management said anticipating future needs is an inherent challenge with on-call contracts. Professional Services coordinates with project managers about future needs, and reviews use when determining whether a service category should be continued. Project managers have the discretion to choose whether to use an on-call contract or another type of contract. We found project managers use some on-call service categories more exclusively than others. Therefore, the use of related professional services contracts and purchase orders may also provide helpful management information for why on-call contracts were not used.

Commission officials were not concerned about some level of unused contracts because its solicitation and administration activities are not burdensome, and the award values do not promise contractors actual work or payment. They said unused on-call contracts do not put the Commission at risk, but do affect contractors. Contractors invest resources to develop and submit proposals. Management said that most contractors meet the Commission's minimum insurance requirements before entering into an on-call contract. Contractors are contractually required by the Commission to maintain this coverage even when they are not offered on-call work.

Over time, however, unused contracts could influence the Commission's ability to meet objectives from its strategic plan. If businesses choose not to submit proposals then that impacts the Commission's ability to obtain quality services at competitive rates. The extent of the impact of unused contracts to contractors would depend on their resources and risk appetite, with the potential of causing more damage to those businesses that the Commission aspires to nurture – startup or smaller businesses from under-represented populations with less access to capital.

ADMINISTRATION: Persistent weaknesses in contract administration by project managers

We found that project managers' administrative practices often were inconsistent with contract terms. Of the 14 contract files we reviewed, we found instances of noncompliance for each of our tests, as shown in Figure 4. Contract administration weaknesses in our non-statistical sample of cases cannot be extended to all the Commission's contracts, but are consistent with deficiencies reported in prior reviews.

Audits from 2005[1] and 2009[2] reported problems with contract administration practices, especially when responsibilities were decentralized. In addition, a 2010 review by an independent contractor identified instances when project managers did not detect overpayments and other contractor noncompliance with contract terms.

Figure 4 Administration of on-call contracts by project managers

Noncompliance test	% noncompliant
Services prior to signed work order	6 of 14 (43%)
Work product issue (late/waived without written agreement, or nonexistent)	9 of 12 (75%)
Invoice overpayment (paid higher hourly rate, reimbursed for unallowable expenses)	4 of 14 (29%)
Invoice compensation issues (errors, unauthorized contractor staff/subcontractors)	5 of 14 (36%)
Invoice detail insufficient	10 of 14 (71 %)

Source: Audit Services Division analysis of Portland Development Commission records

The compliance errors did not add up to a significant dollar amount, but the frequency with which they occurred in some cases points to areas that need management's attention. Our observations and other evidence showed:

- Some project managers chose to verbally authorize contractors to start services before there was a signed work order.
- There is a practice where the written work order – and the legal protections it affords – may not reflect agreed-upon work: some project managers acknowledged that they verbally waived deliverables, extended deadlines, or approved changes in contractor staffing without a written record of these communications.
- Some project managers also lacked an attention to detail when paying bills inconsistent with compensation terms.

1 Talbot, Korvola & Warwick. *Performance Audit of PDC Contracting Activities for the Period July 1, 2003 through June 30, 2005*. September 2005.

2 Office of the City Auditor. *PDC Contracting Follow-Up: Contracting concerns addressed through a centralized procurement structure*. June 2009. http://www.portlandonline.com/auditor/index.cfm?c=49566&a=251856

As a result, we found instances when the Commission paid contractors above hourly compensation rates, reimbursed contractors for unallowable expenses, or accepted charges for unauthorized contractor or subcontractor staff.

- Most invoices did not include all of the required information, and this impairs the Commission's ability to detect any compliance problems. Contractors are required to include specific information on invoices – such as the date and description of the service tasks, number of hours worked and the hourly rate charged. As a result, we could not rule out the possibility of additional overpayments, such as duplicate billing of the same contracted services or services completed outside the scope of tasks outlined in the statement of work.

The division of responsibilities between contract administration staff in Professional Services and individual project managers created a gap in which these problems went undetected. Professional Services processes work orders and any related amendments, but project managers are responsible for developing and enforcing their content. As a result, the Commission has few mechanisms to hold project managers accountable for their contract administration responsibilities. This subsequently limits the ability to hold contractors accountable to on-call contract terms.

Employees provided different reasons for why these weaknesses continue to persist. Project managers said projects were often complex, as well as time- or politically-sensitive. Management said that the nature of the Commission's work, possible prioritization of service delivery over administrative responsibilities, and staff turnover may also contribute to contract administration challenges.

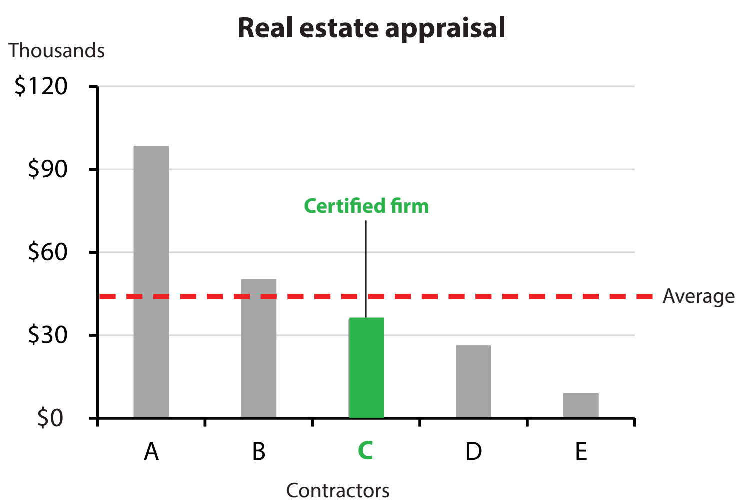
DISTRIBUTION: Fair use and certified firm preference within service categories is not monitored

The Commission manual states project managers should fairly distribute work to qualified contractors with a preference for certified firms. Priorities for contractor selection from a category are: 1) contractors who have not received any work, 2) certified firms consistent with the equity policy, and 3) contractors who have received a relatively small amount of work. To help project managers meet the priorities, Professional Services provides them reports that list contractor names, any certifications held, and contract dollars received.

While the Commission provided guidance and information to project managers, we found no system in place to determine if project managers met distribution and preference requirements. Guidance about on-call contracting is silent about how contractor selection will be reviewed.

In the absence of a system to evaluate contractor selection decisions, we analyzed the information and found work distribution within service categories varied. While it would be unreasonable to expect contractors to be used at the exact same amount, the work does not appear to be fairly distributed as required for the service categories where the Commission used all of the contractors, and where there were more than two contractors in the category. For example, the five contractors within the Real Estate Appraisal service category were paid an average of $44,000, as shown in Figure 5. Two contractors were close to the average, two contractors were below the average, and the most-used contractor was over double the average.

Figure 5 Distribution of on-call contract dollars by service category



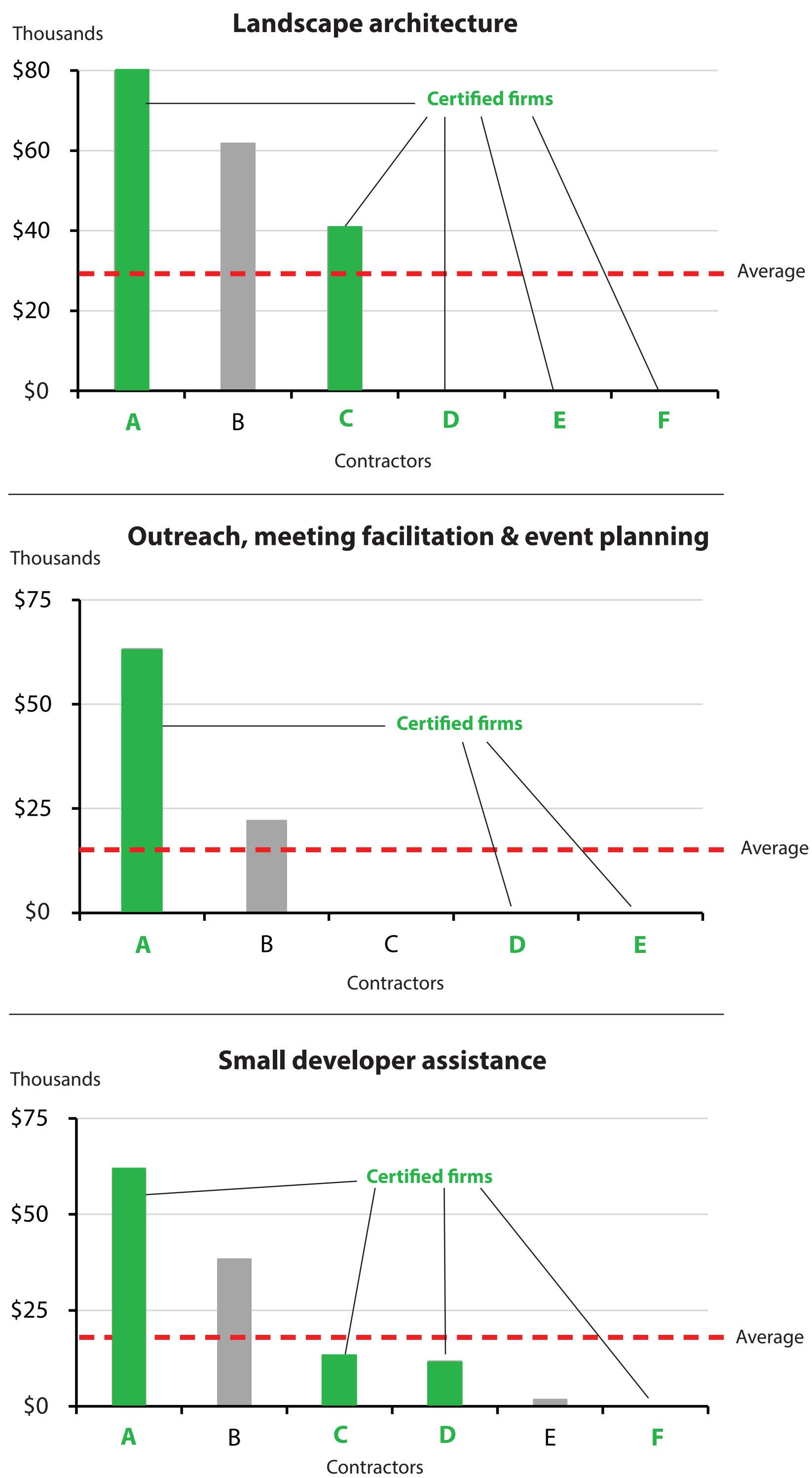
Source: Audit Services Division analysis of Portland Development Commission data. Each contractor in the service category is represented by a letter rather than a name.

Note: Auditor analysis reflects a correction to the Commission's data

Similarly, in terms of certified firm use, it was unclear whether project managers were meeting the certified firm preference requirement. The Commission used nine service categories that had at least one certified firm. If the preference requirement was consistently applied, we expected to see no unused certified firms. Or, if there was little need for the service category, we expected to see certified firms used over non-certified firms. Figure 6 shows three categories where the Commission used a non-certified firm, but had at least one certified firm it didn't use (33 percent of applicable categories). The Commission did not regularly monitor the distribution patterns for these service categories.

Project managers said that they consider multiple factors when choosing a contractor, such as availability, expertise, and equitably distributing opportunities within the service category. Project managers also said they chose contractors because of prior experience with the project or site. Consistent selection of the same contractors was a more efficient use of public resources, because additional resources would be needed to bring another contractor up to speed. These descriptions about contractor selection decisions may explain the distribution patterns described earlier. Given this practice, the initial decision to choose a contractor for a particular project or site has the potential of influencing future contracting decisions and reduces the actual number of work opportunities within an on-call contract service category.

Figure 6 **Distribution of on-call contract dollars for categories with unused certified firms**



Source: Audit Services Division analysis of Portland Development Commission data. Each contractor in the service category is represented by a letter rather than a name.

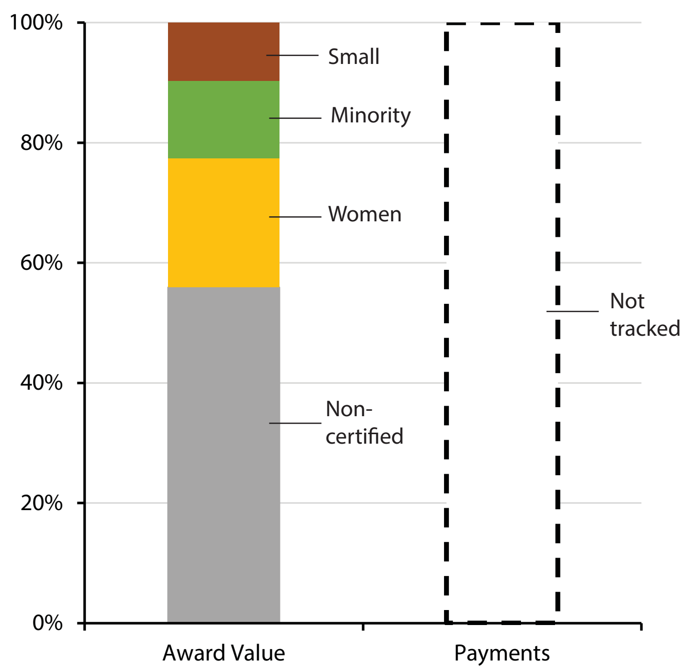
REPORTING: Issues impact reporting of equity outcomes for on-call and other contracts

The Commission needs good information about its contracting practices to ensure that it is meeting its strategic objectives and equity policy goals. Reports that are relevant, complete and accurate can inform decision-makers about progress toward these objectives, and whether any management adjustments are needed to ensure goals are met. We found three areas where reporting could be more relevant, complete and accurate.

Payment-based measure not used, certified firm data inaccurate

The Commission adopted an updated equity policy in 2013 that includes a goal of 25 percent of on-call contracts to certified firms based on their award value. The Commission did not report its awards for 2015, but did have information for fiscal years 2013 and 2014. It reported that the value of awards to certified firms were well above the goal, as shown in Figure 7.

Figure 7 Equity outcomes for on-call contracts, 2014



Source: Portland Development Commission report for on-call contract awards

Given that most of the award value is unused, a payment-based approach would be a more meaningful and stable way to evaluate equity outcomes for on-call contracts. A prior version of the equity policy included a goal targeting 25 percent of dollars paid through on-call contracts to certified firms. However, this goal is not in the current policy and we found the Commission does not track on-call contract payments to certified firms.

In the absence of a payment-based measure, we used the Commission's data to analyze contract dollars paid to certified firms. After we shared our results, management proposed a separate analysis incorporating more current payment information, applying a different methodology, and using other certified firm information. When comparing these analyses, we uncovered inaccuracies with the Commission's certified firm data. This unreliable certified firm data precludes any audit analysis about payments to certified firms. It also impacts any Commission analysis using this certified firm data. Reports containing this certified firm data are used by project managers to inform contractor selection.

Commitment to increasing subcontractor opportunities for certified firms but no reporting

In addition, we found that the Commission does not track the impact of subcontractor activity for on-call contracts. Tracking subcontractors is important because this activity is another way to fulfill the Commission's outcome for equitable construction and contracting, especially when the prime contractors in a service category include no certified firms. Of the 14 contracts we reviewed, nine (64 percent) used subcontractors.

The Commission did not monitor whether certified firms were used as subcontractors, or whether a prime contractor's use of certified firms was consistent with the plans in its proposal. Solicitation records and contract terms explicitly state that the Commission is committed to increasing subcontracting opportunities for certified firms, and prime contractors are encouraged to use certified firms as subcontractors. The Commission also scores proposals based on whether there is an intent to use certified firms as subcontractors. Reporting of both prime and subcontractor activity for on-call contracts would present a more complete picture of whether the Commission is actually increasing opportunities for certified firms.

Business Equity Program reports contain errors

The Commission's goal to use certified firms in on-call contracts is part of a broader Business Equity Program outlined in its equity policy. The goal of the program is to ensure that projects provide professional, supplier, and construction contracting opportunities to certified firms. In addition to on-call contracts, the program applies to both Commission-owned or sponsored professional service and construction contracts/projects. There are corresponding goals for certified firm use in each of these areas, as shown in Figure 8.

Figure 8 Certified firm use during fiscal year 2014

Area	Measurement Basis	Measurement Scope	Goal	Actual	Reported
Construction	Payment	Prime and subcontractor	20%	22%	24%**
On-call service	Award	Prime contractor	25%	44%*	
Professional service	Award	Prime contractor	20%	6%*	

* The Commission tracks on-call and professional service contracts based on both number and award value of contracts. Actuals in table based on contract award value to align with reported results.

** The Commission combined all areas in its annual reporting of program results as described in further detail on p. 14.

Source: Audit Services Division analysis of Portland Development Commission records

The equity policy does not include reporting requirements. For the last two fiscal years, Social Equity staff shared program results as part of an annual report or during a presentation to the Commission's Board. The reports did not state whether the Commission met its goal for each program area, and did not show actual results compared to goals. The reports were also presented as stand-alone snapshots without the context of broader trends. In the reports, staff also erroneously double-counted some direct construction contracts, which resulted in a slight misstatement of results (difference of 1 to 2 percent in certified firm use).

Another shortcoming with the reports is that program areas are combined, which leads to incorrect conclusions. Combining contract types is one way to evaluate certified firm use, but the Commission's use of that approach is flawed. It does not use the same measurement basis (amount awarded, payment) or scope (prime and subcontractor, only prime contractor) across the three program areas, as shown in Figure 8.

Looking at each area individually, the Commission met its goals for the construction and on-call service areas, but was well below its goal for the professional services area. Staff reported to the Board that the Commission exceeded the program goal in fiscal year 2014, even though no combined goal exists.

Recommendations

We found that the Portland Development Commission needs to more effectively and equitably manage its on-call contract activity.

We recommend the Mayor direct the Portland Development Commission to focus on the following:

1. PLAN: Reduce existing discrepancies between award value and actual use by refining its guidance on how to determine the number and size of awards.
2. ADMINISTER: Increase accountability over project managers with emphasis on persistent weaknesses identified in past audits/reviews.
3. DISTRIBUTE: Monitor and provide feedback to project managers about contractor selection decisions.
4. REPORT: Require annual reporting of Business Equity Program results to the Board and management, with an emphasis on relevant, complete, and accurate performance measures.

Objective, scope and methodology

We conducted this audit to determine if the Portland Development Commission is efficiently and effectively managing its on-call contracts to applicable State, City and Commission requirements. The Commission's Audit Liaison Group – which is comprised of representatives from its board and staff – proposed this topic to the City Auditor.

To accomplish our audit objective, we reviewed State, City, and Commission guidance related to contracting generally as well as on-call contracts specifically. This included strategic plans, equity policy, as well as board and management reports related to contracting goals. We used a non-statistical sampling approach to identify on-call contracts and work orders which we then compared against key solicitation and contract administration requirements. We randomly selected these items for coverage across service categories and project managers. Given the practice of not always using on-call contracts, we also performed additional tests on a sample of purchase orders and professional service contracts to better understand why Commission staff did not use on-call contracts.

In order to gain an understanding of on-call contracting practices, we interviewed representatives from the Commission's central business functions (accounting, information technology, and professional services) as well as project manager and administrative staff within programmatic departments. We also communicated with staff to obtain information if documentary evidence about contract administration decisions was not available.

We obtained information from the Commission about its contracting and related payment activity over the last six years (fiscal years 2010 to 2015). We used this information to analyze trends, but given recent changes in Commission guidance, focused on the more recent years to identify our testing population. We observed demonstrations on how staff used information systems to collect, process, and report on contracting activity. As part of our review, we assessed the reliability of data used for our audit. We report on an issue with certified firm data that we determined was significant to our audit objective, and we disclosed other insignificant items to Commission management. We express no opinion on the reliability of the Commission's information systems. Our reviews are not intended to provide assurance that information provided by management is free from error, fraud, waste or abuse.

We conducted this performance audit in accordance with generally accepted 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.

RESPONSE TO THE AUDIT

January 7, 2016

Ms. Mary Hull Caballero
Office of the City Auditor
1221 SW 4th Ave., #140
Portland, OR 97204

RE: Audit #474, Portland Development Commission (PDC): Management of on-call contracts inconsistent with management expectations

Dear Ms. Hull Caballero,

Thank you for the opportunity to review and comment on Audit #474, *Management of on-call contracts inconsistent with Commission expectations*, which was conducted at PDC's request in order to make improvements in our on-call contracting processes. We appreciate the time and effort invested by your staff, and the thoroughness of the review conducted. In addition, we appreciate the consideration of additional information throughout the audit process and the openness of our dialogue. PDC takes its stewardship of public resources seriously and the audit helps identify areas of improvement that would benefit PDC's operations and our service to the public.

On-call contracts, which represent a fraction of all PDC expenditures, benefit PDC by having qualified consultants and other service providers available for use by PDC staff under open contracts for a fixed duration. While the contractors are selected through a competitive solicitation, work is performed at the direction of PDC staff through a decentralized procurement process. The use of on-call contracts for small dollar work orders creates administrative efficiency and flexibility for PDC.

As noted in the report, PDC spent approximately $1,200,000 on professional services through on-call contracts in fiscal year (FY) 2014-15. Excluding the cost of personnel, PDC's total expenditures in FY 2014-15 were $63,000,000, so spending through on-call contracts accounts for a little less than two percent of our total spending last year. The procurement of large dollar or specialized goods and services is conducted through traditional contract solicitation methods (e.g., requests for proposals, invitations to bid), which is not the subject of this audit.

PDC generally agrees with the conclusions and recommendations of the audit, particularly with respect to increasing the accountability of project managers' administration of work orders issued under on-call contracts and improving the reporting of PDC's business equity activity. The remainder of this letter details management's response to the audit recommendations and the steps PDC will take to implement corrective actions.

1. ***Reduce existing discrepancies between award value and actual use by refining its guidance on how to determine the number and size of awards.***

It is the standard practice of PDC procurement staff to thoroughly review the utilization of all expiring on-call contracts prior to the issuance of any solicitation for new contracts. Actions from this review may include the discontinuation of services offered, combination of individual services into broader categories, extending existing contracts if use has been low and increased demand is expected, or reducing the number and value of contracts to be awarded from a new solicitation. PDC procurement staff applies at least one of these actions for each on-call category if less than 50 percent of the total award value was spent.

While PDC acknowledges that it is not desirable for vendors who are awarded an on-call contract to receive no work under that contract, PDC does not view this as an actual risk to meeting our strategic objectives. On-call contracts typically have a term of three years and projecting future service needs will always be an imprecise science. The fact that a contractor may receive a relatively small amount of work or no work at all is also conspicuously disclosed in the contract solicitation documents and on the contract itself. However, to further reduce the amount of unused on-call contracts, we have asked PDC procurement staff to increase their scrutiny before any new contracts are solicited.

2. ***Increase accountability over project managers with emphasis on persistent weaknesses identified in past audits/reviews.***

To improve project managers' oversight of the work orders they manage, PDC will implement mandatory contract administration training for all project managers who oversee the work of on-call contractors. This training will be delivered by the end of calendar year 2016 and will include training on best contract administration practices, billing and payment procedures, contract file management, escalation and resolution of issues, and proper close-out procedures. Going forward, PDC will also conduct an internal test sample of on-call contract billing compliance once per year to see if additional actions are warranted. While PDC acknowledges that improvement is needed in this area and appropriate steps are being taken, we are pleased the report noted "the compliance errors did not add up to a significant dollar value."

3. ***Monitor and provide feedback to project managers about contractor selection decisions.***

Section 4.4.3 of PDC's *Purchasing and Contracting Manual* states: "PDC project managers should take steps to fairly distribute work to all qualified service providers within a flexible [on-call] service category. A general preference should be given to Certified Firms." This is offered as general guidance, not stricture. Lack of availability or capacity, lack of specific expertise, cost, timing, or any other number of factors may lead a project manager to select one on-call contractor over another as no two contractors are the same.

To better improve utilization of Certified Firms, PDC's procurement team will convene a small working group of PDC project managers to summarize the current contractor selection process, identify barriers to increasing Certified Firm use, and recommend appropriate mitigation strategies.

4. ***Require annual reporting of Business Equity Program results to the Board and management, with an emphasis on relevant, complete, and accurate performance measures.***

While PDC Business Equity staff provides our Board of Commissioners with an annual update on business and workforce equity, this report will be required once PDC's *Equity* policy has been updated and re-approved by the PDC Board during the last half of FY 2015-16.

Reflecting on three specific areas identified by the report:

4.1 ***Payment-based measure not used, certified firm data inaccurate.***

PDC agrees that a report based on payments to Certified Firms would provide a more accurate picture of use compared with the value of contracts awarded, particularly for on-call contractors. As part of its annual reporting on equity, PDC will provide information on the amounts paid to certified firms, broken down by certification type. To improve the accuracy of contractors' certification status, the source of which is a database maintained by the State of Oregon (not PDC's native data), certification statuses will be verified and updated in our financial system at the time of major contract actions (i.e., when contracts are encumbered and amended).

4.2 ***Commitment to increasing subcontractor opportunities for certified firms but no reporting.***

PDC plans to conduct a solicitation for business equity reporting software within the year. During the development of mandatory and desirable software features for this solicitation, and in the evaluation of proposals, PDC will take into account the ability of offered systems to track subcontractor plans and use. Currently, PDC has no means of tracking the actual utilization of subcontractors since PDC's financial system records payments to prime contractors only, and not our contractors' payments to third-parties.

4.3 ***Business Equity Program report contains errors.***

PDC appreciates the observations noted in this section of the report and is committed to producing reports that are relevant, complete, and accurate to determine whether adjustments are appropriate to meet PDC's expectations and ambitious objectives. With the heightened emphasis on business equity in PDC's 2015-2020 *Strategic Plan*, we have asked the staff of PDC's Business Equity Program to reevaluate the scope, metrics, and form of our business equity reports. PDC staff will share the results of this evaluation and the steps taken during the one-year audit follow-up.

On behalf of the PDC Audit Committee, please extend our thanks and appreciation to the Audit Services staff for their effort on this audit and considering our feedback throughout the process.

Sincerely,

Mayor Charlie Hales	Patrick Quinton
City of Portland	Executive Director
	Portland Development Commission

C: PDC Audit Committee

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Portland Development Commission: Management of on-call contracts inconsistent with Commission expectations

Report #474, January 2016

Audit Team: Tenzin Choephel, Alexandra Fercak, Erin Dickmeyer

Mary Hull Caballero, City Auditor
Drummond Kahn, Director of Audit Services

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Southwest Portland: Residents rate livability highly while some services are much worse than citywide (#467, July 2015)

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