

# Audit at a glance

## Great Hall Construction

APRIL 2023

**ABOUT** | The Great Hall in Denver International Airport lies beneath the Jeppesen Terminal's tented roof.

Renovations began in July 2018, but the airport terminated the original construction contract in late 2019 after problems arose with the initial contractor. Airport officials expedited the procurement process to hire Hensel Phelps Construction Co. as the new contractor of a re-envisioned three-phase construction project that resumed in early 2020.

The airport now expects work on the Great Hall to finish in 2028 at an expected cost of \$2.1 billion.



## In the report

### **FINDING:** Denver International Airport needs to strengthen its management and oversight of the Great Hall construction project to ensure the best value for the city

- The airport has no process to select the best project delivery method for its construction projects.
- Without a structured or risk-based way to choose the right contractual relationships, roles, and responsibilities of all parties involved in a project, airport officials may choose an option that limits their control and authority. This can have expensive consequences, as the airport learned during the initial version of the Great Hall project.
- The airport did not follow its normal procurement process when selecting Hensel Phelps as the new Great Hall contractor in late 2019.
- Although the airport had to move quickly because of the active construction site, officials did not develop or keep records to document the required steps of procurement — such as selection panel score sheets for each bid on the new contract and records showing how officials used evaluation criteria to score prospective contractors.
- In fact, airport executives directed managers at the time to limit documentation related to the Great Hall project because of the number of open records requests the airport had received from the public.
- The airport lacks policies and procedures to manage complex construction projects like the Great Hall project. The airport's Special Projects Division does not have a standardized approach for managing construction work that uses the construction manager/general contractor delivery method.
- Without consistent practices, airport staff have had to develop their own procedures for performing management and oversight duties, among other tasks. This risks inconsistencies in project management — for

### **WHY IT MATTERS**

- Without proper project management and oversight of construction work — beginning with choosing the appropriate project delivery method and lasting through construction — the city risks overpaying for projects like the Great Hall renovations.
- Additionally, if the procurement of contractors and subcontractors is not done openly, fairly, and competitively, it damages the airport's reputation and impedes the airport's ability to ensure the city receives the best value for contracted work.

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example, staff might misapply key oversight steps or overlook them entirely.

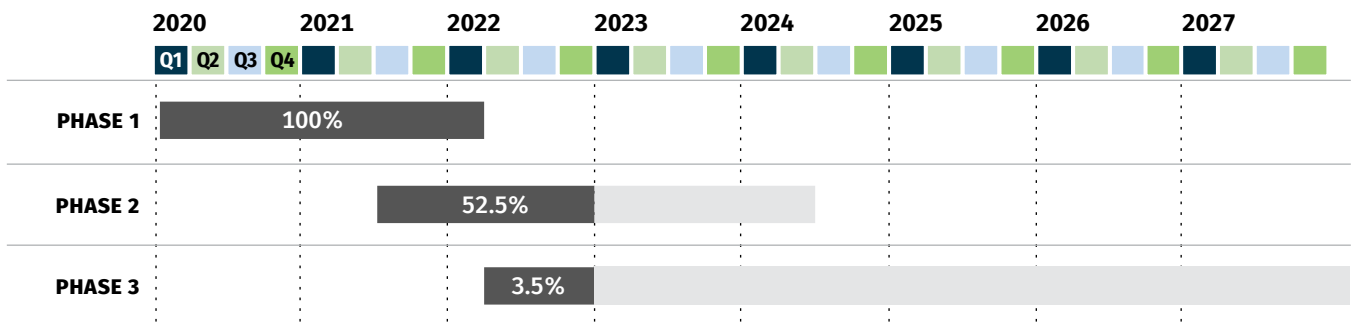
- The airport did not properly oversee Hensel Phelps’ subcontracting process when it hired 34 subcontractors for \$70 million worth of work during phase two of the Great Hall project. As such, the airport allowed Hensel Phelps to choose subcontractors that may have been in its own best interest, rather than the airport’s.
- The lack of oversight resulted in the airport paying over \$1 million more than originally proposed across three subcontracts and it also allowed Hensel Phelps to overcharge the airport for markups on construction work awarded to sub-subcontractors.
- Meanwhile, the airport also did not properly oversee Hensel Phelps’ process for hiring itself as a subcontractor, which allowed the company to award itself work outside a fair and reasonable bidding process.
- Hensel Phelps structured the bidding of concrete work to its advantage, potentially reducing submissions by other prospective subcontractors. The airport also allowed Hensel Phelps to award itself this work even though the company then subcontracted some of the job out to another subcontractor.
- The airport is not properly using construction allowances and verifying associated costs. “Project allowances” are placeholders in a contract – they are estimates to account

for costs that may not be fully known yet. Whenever the final costs are more or less than an estimated allowance, the contract’s total amount should be adjusted accordingly.

- Instead, the airport overrelied on Hensel Phelps by allowing the company to adjust allowance amounts without independently verifying any costs for either phase one or phase two of the current Great Hall project.
- On many occasions, the airport took allowance amounts for one particular scope of work and transferred them to other areas of the project where an allowance was either not set up at all or where an allowance was too low to cover actual costs. This happened because airport staff misunderstand how allowances should be defined, tracked, and accounted for – which exposes the airport to overpaying for the Great Hall project.
- The airport also did not adequately review general conditions costs, which are expenses a contractor incurs that do not directly relate to construction activities – such as administrative costs or phone and internet service. As of August 2022, general conditions costs made up about 13% of total costs on the Great Hall project, or about \$28.4 million.
- Because airport managers are not adequately reviewing Hensel Phelps’ calculations for general conditions costs, they cannot know whether the items that make up the rate for monthly billings are of reasonable amounts and allowable under the contract.

### Revised Great Hall project timeline, as of January 2023

After the airport terminated its initial contract with Great Hall Partners LLC in 2019, the airport hired Hensel Phelps Construction Co. to take over the project beginning in 2020. This timeline shows the project phases expected under Hensel Phelps’ contract with the airport and how far along each overlapping phase is.



Source: Graphic designed by Auditor’s Office staff using information from Denver International Airport.

