

**Audit of the Orange County
Convention Center Phase V
Expansion
Interim Report No. 5
General Conditions – Other
Expenses**

**Report by the
Office of County Comptroller**

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**Report No. 332
July 2003**

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July 29, 2003

Richard T. Crotty, County Chairman
And
Board of County Commissioners

We are in the process of conducting an audit of the Orange County Convention Center Phase V Expansion. This interim report is limited to a review of certain expenses under the General Conditions' provisions of the Construction Manager's Agreement with the County. Our audit was conducted in accordance with government auditing standards and included such tests as we considered necessary in the circumstances.

Responses to our Recommendations for Improvement were received from the Orange County Convention Center Construction Division and are incorporated herein.

We appreciate the cooperation of the Division during the course of the audit.

Martha O. Haynie, CPA
County Comptroller

c: Ajit M. Lalchandani, County Administrator
Tom Ackert, Director, Orange County Convention Center
John Morris, Manager, Orange County Convention Center, Construction Division
Johnny M. Richardson, Manager, Purchasing and Contracts Division

INTRODUCTION

Background

On March 24, 2000, the County entered into an agreement, effective retroactively to January 1, 2000, with Huber, Hunt & Nichols/Clark/Construct Two for the Construction Manager (CM) At Risk services. Subsequently, this group changed its name to Hunt/Clark/Construct Two, Joint Venture. On November 22, 1999 the County also executed an agreement with O'Brien Kreitzberg (now URS) for Program Management Services (Program Manager). Components of the construction budget of \$520 million were delineated in Exhibit B of the CM agreement. The Notice to Proceed was issued to the CM on March 31, 2000.

The Convention Center's Project Director is responsible for controlling the budget, contract administration, coordination of the various firms and related teams, day-to-day oversight, and providing reports to the Citizen's Oversight Committee (COC), County Chairman and Administration, and the Board of County Commissioners (Board). The Purchasing and Contracts Division, with input from the Project Director, is responsible for contract documentation and amendments.

The Program Manager, the Project Director, the CM, and other individuals provide monthly updates on construction activities and progress to the COC. Copies of these reports and minutes of these meetings are provided to the Board. Architectural and Engineering services are provided by Helman Hurley Charvat Peacock / Architects, Inc. (A&E).

Article 8.2 of the CM Agreement requires that "at the time the GMP is established, the parties shall also agree upon the General Conditions' items to be provided by the Construction Manager as part of the Work." As a result, General Conditions' items with a total budget of \$15.4 million within the Guaranteed Maximum Price (GMP) of \$490 million were agreed upon by the County and the CM in September 2000 when the GMP was finalized.

According to Article 8.1,

General Conditions' items as used herein shall be deemed to mean provision of facilities or performance of Work by the Construction Manager

for items which do not lend themselves readily to inclusion in one of the separate Trade Contracts. General Conditions' items may include (but are not limited to) the following: watchmen; scaffolding; hoists; signs; safety barricades; water boys; cleaning; dirt chutes; cranes; ...temporary toilets; fencing; sidewalk bridge; first-aid station; trucking; temporary elevator; special equipment; winter protection; temporary heat, water, and electricity; temporary protective enclosures; field office...general maintenance; refuse disposal...legal fees....”

**Scope, Objectives,
and Methodology**

The overall audit scope includes a limited review of the Architectural and Engineering Services, the Program Management, and the Construction Manager (CM) At Risk agreements with emphasis on contract administration, compliance, and certain related matters. The audit period is July 1, 1999 to May 31, 2003. This interim report (No. 5) covers expenses paid by the County for items, other than printing and reproduction, under the General Conditions' provision (Article 8) of the CM's contract with the County.

The objective of this audit segment was to verify whether payments made to the CM for other General Conditions were for expenses which were incurred, accurate, and billed in accordance with Article No. 8 of the CM Agreement.

To achieve our objective, we performed the following:

- Reconciled General Conditions' payments applied for by the CM, payments made by the County, and payments received by the CM;
- Traced a sample of checks to the CM's applications for payment and reviewed supporting documents for adequacy, mathematical accuracy, reasonableness, duplication, and proper authorization;
- Reviewed arrangements for billing and payment of legal expenses;

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- Examined a sample of billings and payments for reasonableness of services provided, accuracy of billings, and compliance with the legal services contract;
- Reconciled payments due for the legal services' retainer with actual payments made;
- Examined a sample of payroll expenses for compliance with contractual arrangements, and accuracy;
- Reviewed a sample of employees for proper identification records; and,
- Tested a sample of fixed assets for proper recording, existence and use.

Overall Evaluation

Based upon the work performed, payments made to the CM for other General Conditions' expenses materially complied with the scope and nature of work prescribed in Article No. 8 of the CM Agreement. In our opinion, controls to ensure compliance with this aspect of the Agreement were adequate. However, the County's controls to ensure the accuracy of payment for and receipt and delivery of goods and services relating to general conditions expenses were not adequate. Recommended improvements are noted herein.

RECOMMENDATIONS FOR IMPROVEMENT

1. The Budget for General Conditions' Expenses Should Be Established as a Specific Component of the GMP

A budget of \$15.4 million for General Conditions was agreed upon at the time the GMP of \$490 million was finalized. However, the amount was not shown in the CM At Risk Agreement Amendments (Nos. 1 and 2) that formalized the GMP.

A schedule of items making up the \$15.4 million budget was negotiated and agreed upon as required by Article 8.2 of the Agreement. However, as of November 30, 2002, the CM had committed General Conditions' expenses of \$25.9 million (68.2% more than the budget) and expensed approximately \$23.1 million.

Expenses for General Conditions should be controlled. As such, close Owner's scrutiny and oversight is needed. Without a formal budget incorporated into the amendment, a commitment to holding expenses down may not be a major objective once the amount can be accommodated within the GMP. This could increase actual cost of the project and, in an agreement with a shared savings clause, reduce the amount of possible savings.

We Recommend, for future GMP At Risk Agreements, the County formalizes a budget for General Conditions' expenses as a specific component of the GMP.

Management's Response:

The Draft Report states that the budget for General Conditions "was not shown in the CM-at-risk Agreement Amendments (Nos.1 and 2) that formalized the GMP." This recommendation is built on that assumption. The General Conditions Budget was formalized "in writing" between Orange County and the CM. This was prepared as the GMP was established, and has been maintained continuously thereafter. It lists 45 Cost Codes which comprised the General Conditions Budget.

Two additional facts deserve mention. The CM Agreement authorizes the CM to utilize the CM's Contingency for purposes within the GMP, including General Conditions, and this in fact has occurred. The CM Agreement also authorizes the Owner to "direct performance of additional General Conditions items."

Auditor's Comment:

Although the budget for general conditions was shown in a written schedule, it was not formalized as part of the contract amendment. Breaking out cost components within a line item budget in a contract helps to minimize or eliminate budget overruns. As noted above, actual general conditions expenses exceeded the budget by 68%.

2. Invoices for Legal Services Should Be Reviewed Against the Terms of the CM's Legal Services Agreement with their Attorneys

The CM entered into an agreement with a legal firm to provide legal services relating to the building of phase V of the Convention Center. The agreement requires the CM to pay a retainer of \$10,000 upon execution of the engagement letter and \$10,000 per month for a period of thirty-six months after the County awards the contract to the CM. The engagement letter (legal services agreement) was executed on March 12, 1999. The Board selected the CM on June 24, 1999, and instructed staff to negotiate a contract. As a result of being selected, monthly retainer payments were due from the CM beginning July 1999. Relating to this agreement, we had the following concerns:

- A) The County made an agreement with the CM to pay \$5,000 per month towards the \$10,000 monthly retainer. There was no documentation on file to:
- Show when payments should begin and end;
 - Explain how the basis for the \$5,000 was determined;

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- Show the amount of the agreed upon retainer that should be paid by the CM to the Attorneys; or,
- Indicate the scope of services to be provided.

As a result, the reasonableness of the retainer and the extent of the commitment for payments were not determined¹. According to Article 9.5.2(12) of the CM agreement with the County, "...legal costs reasonably and properly resulting from prosecution of the work for the Owner," should be reimbursed by the County to the CM.

- B) The contract (the agreement to build Phase V of the Convention Center) between the CM and the County was signed on March 24, 2000 with an effective date of January 1, 2000. However, the County, on April 30, 2001, retroactively paid \$5,000 of the monthly retainer (see above) for the period July through December 1999 (totaling \$30,000). Work done before January 2000 included legal services performed solely for the CM such as negotiating and finalizing the CM Agreement with the County. Also, costs incurred for any legal services performed prior to the execution of a contract on behalf of the County would have been covered by the \$2.4 million paid by the County on April 26, 2000 to the CM for pre-construction services for the period prior to January 1, 2000.
- C) The County made payments totaling \$119,798 for legal services rendered by the CM's attorneys for the period October 2000 through December 2001 in addition to the \$5,000 monthly retainer. These payments were made without ensuring the payments were in accordance with the legal services contract. We determined that these services were performed in defense of a suit filed by a former member of the management team against the CM. The County did

¹ Subsequent to the completion of fieldwork for this segment of the Audit, the Program Manager reviewed the CM's legal services agreement and determined the arrangement for retainer payments.

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not review the legal services agreement between the CM and their attorneys, and as a result, could not ensure the payments were in accordance with the contract terms.

D) Our review of the fifteen invoices making up the \$119,798 (referred to in C above) revealed numerous deficiencies in documentation as follows:

- One invoice did not contain a description of the activities that were performed;
- Fourteen of fifteen invoices did not show the time spent performing each activity;
- Fourteen of fifteen invoices did not show the positions of the individuals performing the activity; and,
- In some instances, we were unable to determine if activities billed were reasonable due to the vagueness of the activity descriptions. For example, it was stated several times that conferences and/or strategy sessions were held but there was no indication of individuals in attendance.

Invoices for legal services should provide adequate descriptions of the individual activities performed, dates and amount of time spent on each activity, the level of personnel performing each activity, and rates per hour for each level of personnel performing the services. Billings should be based upon the contractual rate per hour for the various levels of personnel as detailed in the schedule of rates in the legal services agreement. (We noted that these criteria were met on invoices for legal services provided to the CM, the costs of which were not billed to the County.) Due to the lack of details on the invoices and knowledge of contractual terms, the accuracy and reasonableness of the billings were not determined.

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We Recommend the County performs the following:

- A) Ensures that invoices adequately describe the activities performed, show the date and time spent on each activity, identify the level of personnel performing the activity, and show the rates of compensation. Such rates should comply with the terms of the legal services agreement; and,
- B) Requests a credit adjustment for the \$30,000 paid for the period July to December 1999.

Management's Response:

Concur. I concur with parts A and B of this recommendation. In doing so, it is noted that the CM's agreement with its law firm is in writing, additional information will be requested where invoices lack sufficient detail, and the County's maximum liability is limited to \$185,000 and payments above that amount have been credited back to the County. Finally, the County is not a party to the mentioned lawsuit, and has not been.

3. Invoices Should Contain Adequate Descriptions of Materials and Services and Be Supported by Evidence to Show Materials Were Supplied and Services Performed

Our review of the support documentation for a sample of two General Conditions' payments (No. 15 and No. 25) disclosed that some invoices did not contain adequate descriptions of, or assurances that, goods and services were provided. Examples are noted on the following page:

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Invoice Number	Date	Amount	Description
4711	3/26/01	\$35,644	Invoice states: “Grade 3,911sy, Mix soil & clay 3,555sy, Supply & install 3,911sy concrete fines.” There were no delivery tickets, or signature attesting to receipt, or any other evidence that the materials were received.
4721 4722	4/03/01 4/03/01	13,850 3,710	The invoices state: “Proposal #111, 6” Water Line Extension – See Attached.” The only attachment to the invoices was a copy of the proposal. There was no evidence the work was performed.
102661	3/28/01	11,646	Invoice states quantities, description “Install 6’ high chain link fence,” and lump sum amount. No copy of an agreement was provided, or a rate per unit, or any attestation that the work was performed.
0201848-0180-9	1/01/02	2,040	Invoice states “24 Port-O-Let Service for \$2,040.” This results in a unit cost of \$85, where as the unit cost on similar invoices was \$65. There was no explanation as to why the service was more expensive on this invoice as compared to others.
028352	3/27/01	10,752	Invoice states: “TRAILER DUCT CLEANING & UNIT. Billing for scope of work done. See attached correspondence.” The correspondence was a one sentence e-mail from OCCCD to the CM stating “this will be charged to General Conditions like any other repairs in the PTO therefore I will not be issuing a work authorization.”

Invoices should contain adequate description of the materials and services and supported by evidence that services were performed or materials supplied. Without this, the County could be paying for goods and services not provided or paying for them before they are received.

We Recommend the County ensures invoices contain adequate descriptions of materials and services and are supported by evidence that these materials are supplied and services performed.

Management's Response:

Concur. I concur. Invoices which lack essential detail either have been, or will be field verified.

4. Payments Should Not Be Made for Items Included in the Labor Rate Multiplier

We reviewed subcontractor invoices totaling approximately \$14,000 that were submitted by the CM for reimbursements during the period, November 23, 2001 to December 21, 2001. Our review noted that the County was billed and provided payment for items (totaling \$730) that were included in the labor multiplier stipulated in the contract between the subcontractor and the CM. Direct billings were made for bosch bits, router bits, drill bits, saw blades, socket sets, trowels, sledges, drills, chisels, ship augers, cut off saws, shop towels, screw locators, gloves, dust masks, and paper cups. However, the contract between the CM and the subcontractor established labor rates with a multiplier of two times the base pay rates. The multiplier includes items such as "office overhead (computers, fax machines, office supplies, etc.), miscellaneous, small tools, golf carts, vehicle allowance for salaried personnel, purchase of Nextel phones, etc." As a result, the County paid twice for these items. County staff reviewing the supporting documents for the pay requests did not know that these items were already included in the multiplier, as they had not obtained the contract between the CM and the subcontractor.

We Recommend the County performs the following:

- A) Obtains a copy of the contract between the CM and the subcontractor, ascertain what items are included in the multiplier, and ensures that future billings do not include these items as separate amounts.
- B) Reviews past billings, identify items and amounts billed separately which were already included in the multiplier and request a credit adjustment from the CM.

Management's Response:

I concur with part B of this recommendation, and will follow through as suggested. For the reasons previously stated, I do not concur with Part A, which would require the County to obtain copies of all contracts between the CM and its trade contractors.

5. Accuracy of Labor and Other Expenses Should Be Verified Against Contractual Terms

During our review of General Conditions payments Numbers 15 and 25 totaling approximately \$1 million, we found that the County accepted and paid labor expenses and other services totaling \$627,747 without adequate support. As of August 31, 2002, the County has paid a total of \$20.4 million to the CM for General Conditions' expenses. The County was unable to verify the actual rates billed with contracted rates as the contracts between the CM and the General Conditions' subcontractors were never reviewed. County staff did not request copies of the contracts because of Section 5.13.7 of the CM Agreement; which states

...the Owner's staff are not entitled to copies of any contracts or other file material or to remove any of those documents or materials from the Construction Manager's offices without the Construction Manager's permission, which may be granted or withheld at the Construction Manager's option.

To perform an effective review and minimize the costs of General Condition's expenses, the County must know the contractual terms and conditions under which the expenses are incurred.

We Recommend the County performs the following:

- A) Requests and reviews the contracts between the CM and the General Conditions' subcontractors and, on a sample basis, verifies the accuracy of the amounts being paid for payroll and other services.

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- B) Ensures that future agreements with contractors entitle the County to have access to and make copies of contracts between the contractor and their subcontractors.

Management's Response:

- A) Concur. I concur in Part A of this recommendation, which advocates that the County review, "on a sample basis," contracts between the CM and its General Conditions' sub-contractors for accuracy of billings.
- B) Do not concur. I do not concur with Part B. It would effectively preclude use of the Delivery Method selected for the Phase V Project, which places substantial liability on the CM-at-risk. To assume this risk, the CM must be allowed to follow private sector bid/award practices, with pre-qualification and negotiation of final award. Please be reminded that the CM is required: to submit bid documents to the Owner for prior review; to obtain competitive bids for the work described; and to accept the lowest and best bid, after negotiation when appropriate, unless the Owner waives that requirement in those few cases where its interests would be served by doing so. The CM for Phase V has executed this process admirably. It would not be in the County's best interests to hinder future CM's flexibility in awarding trade contracts.

Auditor's Comments:

Our recommendation does not preclude the delivery method selected (GMP/CM-at-Risk) from being used. On the contrary, it ensures the delivery method chosen is utilized by examining costs and contract terms. In simple terms, if the project comes in under the GMP, the County would pay an amount less than the GMP. Therefore, it is in the County's best interest to ensure prices paid by the CM are reasonable and contract terms are not detrimental to the County.

6. The County Should Pay Overtime Expenses that Are in Accordance with Contractual Terms

During our review of overtime billings for all employees of five General Conditions' subcontractors, we noted the following:

- A) Overtime billings totaling \$6,888 for labor provided by the primary General Conditions' subcontractor to the CM during a sample period of nine weeks may have been overstated. The rate for this subcontractor's overtime was applied to the multiplier rate of 2.0 times base pay. The contract between the CM and this subcontractor did not address the issue of overtime. However, other contracts for General Conditions' services provided for the payment of overtime and specified that the overtime rate must be applied to the base rate of pay (not twice the base rate). If the overtime in this instance was calculated on the base rate of pay without the multiplier, the billable amount would have been reduced by \$3,444 for the period.
- B) One invoice submitted by the on-site medical services subcontractor to the CM did not include \$420 for seven hours of overtime worked during the period October 29, 2001 to November 3, 2001. The contract between the CM and this subcontractor specifies that overtime must be paid at 1.5 times the base rate in excess of 40 hours per week. The County did not review this contract and according to County staff, their procedures are to pay only what is billed.

We Recommend the County performs the following:

- A) Ensures the CM establishes a consistent method of compensating General Conditions' subcontractors for overtime. All future contracts should specify whether overtime should be paid as well as the rate and basis of computation if allowed.

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- B) Determines the amount of overstated overtime costs reimbursed for this subcontractor and request a credit for the amount from the CM.
- C) Requests the CM to advise the medical services subcontractor to review its records and submit revised billings for overtime worked but not billed.

Management's Response:

Concur. I concur with Parts A, B and C of this Recommendation. It is noted, however, that each contract stands on its own, and overtime rates may vary from contractor, depending on numerous factors. If overtime costs have been overstated or under-billed in the instances reported, corrective action will be taken.

7. Medical Trailers Should Be Adequately Staffed and Related Services Billed in Accordance with Contractual Terms

A review of the daily reports supporting invoices submitted by the subcontractor providing on-site medical services revealed the following:

- A) The daily reports indicated that the medical trailer was staffed with one to three persons each day; but did not indicate the employees' qualifications. The contract between the CM and this subcontractor requires a medical trailer to be staffed by a Paramedic and an EMT. Therefore, documentation shows the trailer was understaffed on three occasions (3 of 29 days) when only one person was present. In addition, since the employees' qualifications were not stated, it could not be determined if the trailer was adequately staffed on the other occasions.
- B) The contract also specifies different rates of pay for each qualification: \$40 per hour for the Paramedic and \$30 per hour for the EMT. Without the employees' qualifications, it was not possible to verify

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the accuracy of the \$9,105 paid by the County for the period reviewed.

- C) The contract also stipulated “if 80% of the patients seen in any calendar quarter are not treated onsite, a 10% discount will be given for the hourly services for the following calendar quarter.” However, the County did not review the treatment reports or try to determine if discounts were applicable at anytime.

The County did not review the contract between the CM and the medical services provider. As a result, they were not aware of the staffing and rate of pay stipulations or the incentive (discount) clause.

We Recommend the County reviews the contract between the CM and the medical services provider to ascertain the compensation terms and conditions and performs the following:

- A) Requires the CM to ensure that the Medical trailer is staffed at all times in accordance with the contractual arrangements.
- B) Ensures that billings and supporting daily reports identify employees’ qualifications and that compensation rates are in accordance with contract terms for these positions.
- C) Reviews quarterly treatment reports prospectively to ensure that applicable discounts are not lost.
- D) Reviews quarterly reports retroactively and determines if discounted rates were applicable. If they were, determine overpayment and seek a refund from the CM.

Management’s Response:

- A) Concur.

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- B) Concur.
- C) Concur.
- D) Do not concur.

I concur in Parts A, B and C of this Recommendation. In the instances cited, the qualifications of the persons assigned met or exceeded requirements. The CM will continue to ensure that applicable discount rates are applied.

8. Payment for Labor Expenses Should Be Based Upon Contractual Rates

Payments were made by the County to the CM to reimburse certain labor expenses incurred by the CM's subcontractors. Relating to this, we had the following concerns:

- A) The hourly rates billed by a security firm performing duties as subcontractor to the CM for the period November 26, 2001 to January 2, 2002 were lower than the rates stipulated in the contract between the CM and security firm. The invoiced rates and the contract rates were as follows:

Position	Invoice Rate Per Hour	Contract Rate Per Hour
Unarmed Security Officer – Day	\$12.00	\$13.96
Unarmed Security Officer – Night	\$12.25	\$13.96
Security Supervisor	\$14.00	\$14.89
Project Manager	\$16.00	\$21.50

The amount under billed for the period was \$4,225. This amount could be significantly greater if the situation occurred for the entire time the security firm was on-site, which was since the inception of the construction.

- B) The County paid a security firm's Administrative/Project Manager expenses that were 110 hours in excess of the allowable billable hours over eleven of fifteen weeks tested. Excess hours

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ranged from 1.5 to 25 hours per week. The contract between the CM and the security provider stipulates that, “in no event shall billable hours for Administrative/Project Manager exceed a combined total of 20 hours per week.” As a result, the County made overpayments totaling \$2,750.

Billing rates should be in compliance with rates stipulated in the written contracts between the CM and their General Conditions’ subcontractors. Since we reviewed only two General Conditions’ payments, it is possible that these incorrect rates may also have been used on billings, that we did not review, submitted by subcontractors to the CM for the provision of labor under General Conditions.

We Recommend the County performs the following:

- A) Requires the CM to obtain revised billings showing the correct rates of compensation and pay amounts that were under-billed to the security firms involved;
- B) Reviews past General Conditions’ billings submitted by the security providers, determines amount of overpayments based upon the terms of the contract, and requests a credit adjustment from the CM;
- C) Requests the CM to establish necessary controls to ensure that future pay requests are for amounts that are in compliance with contractual arrangements; and
- D) Ensures rates used to compute labor costs in future billings submitted by subcontractors to the CM conform to contractual rates.

Management’s Response:

Concur. I concur in Parts A, B, C and D. Service contracts are normally designed for compensation based on an hourly rate per position times the applicable multiplier. These rates are also normally maximum rates. The company is not required to bill at the maximum rate, and the CM is not obligated to pay at the maximum rate. If a company bills at a

rate lower than the maximum rate, that is what should be paid. The CM has and will continue to review and reconcile the security firm's invoices and pay as required.

9. Expenses for Equipment and Site Office Space Should Be Paid in Accordance with the Contracts

During our examination of certain fixed assets, we noted the following:

- A) Three modular suites (Suites 1100, 1200, and 1500) at the construction site were fully occupied and one suite (suite 1300) was partially occupied by the A&E. Approximately 7,920 square feet was occupied by the A&E. The County paid \$208,957 to acquire these suites. In addition, the County has been paying \$1,900 monthly to clean the suites. However, the contract between the County and the A&E (totaling approximately \$44 million executed in June 2001) does not require the County to provide free office space to the A&E. According to County staff, they thought the contract between the County and the A&E provided for free on-site offices; however, upon further researching the issue, staff stated that they made an oral arrangement with the A&E to provide them with free office space.

- B) The County provided a Dell laptop computer (serial No. 12800-9AO-4433) that cost \$3,821 to a cost estimating firm that is a sub consultant of the A&E. However, the County's contract (totaling approximately \$44 million) with the A&E does not require the County to provide the A&E or its sub consultants with office equipment. According to the County, they had three laptop computers that were not in use. Excess equipment should be forwarded to the Comptroller's Property Accounting Department for redistribution.

Written contracts provide the terms and conditions for making payments for rendering agreed-upon services. Oral

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agreements should be avoided as one or more of the parties involved can more easily misunderstand them.

We Recommend the County ensures the following:

- A) Future contracts with A&Es specify who is responsible to pay for on-site office space for A&Es.
- B) All arrangements, subsequent to the execution of the contract, affecting A&E contract terms, are documented in addenda or amendments to the contract.
- C) The Dell laptop computer is recovered from the A&E sub consultant and, if not needed, forwarded to Property Accounting for redistribution to other County Departments that are in need of such equipment.

Management's Response:

- A) Concur.
- B) Concur.
- C) Do not concur.

I concur in Part A of this Recommendation, and in Part B for future contracts. This arrangement was agreed during contract negotiations and was made as a verbal commitment. Had this agreement not been made, the A/E would not have placed personnel on site. This would have delayed the A/E's response to numerous RFI's and other issues which arose in the field, an enormous disadvantage to the Project. I do not concur in Part C. This was also a verbal agreement, and future contracts should specify equipment usage. The savings generated by the estimator using the laptop computer have been in the millions of dollars, allowing the flexibility to field- verify and field-enter data on proposed change orders.

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Auditor's Comments:

While we do not dispute that the use of a computer by the cost estimator was beneficial, we fail to see the need for the County to provide it gratis.

Exhibit - Management's Supplemental Response

Exhibit - Management's Supplemental Response

Exhibit - Management's Supplemental Response

The Draft Report includes nine "Recommendations for Improvement." The heading of each recommendation is valid, often self-evident. The suggestion that management of the Phase V Project has not observed the recommendations, however, is substantially flawed.

I concur, "Payments made to the CM for other General Conditions' expenses materially complied with Article No. 8 of the CM Agreement."

I do not concur that, "the County's controls to ensure the accuracy of payment for and receipt and delivery of goods and services relating to general conditions expenses were not adequate."

The Draft Report assumes that the County should have detailed knowledge of each contractual relationship between the CM, on the one hand, and its attorneys, trade contractors, suppliers and service contractors, on the other hand, before approving each payment to the CM on account of such relationships. I concur in that assumption as to payments requested for GC items. To my knowledge, there is no standard which requires that level of knowledge and review with respect to construction work or services included within the GMP, in the Delivery Method known as GMP/CM-at-risk. Although GC payments are the focus of this Interim Report, the broader issue surfaces in Recommendation 5.

It is my strong belief that this Project is being managed in a manner which equals or exceeds industry standards for the "GMP/CM-at-risk" Delivery Method. At the same time, I agree that the Draft Report includes certain valid observations and criticisms which will assist us as we go forward with the Project.