

# SANTEE SCHOOL DISTRICT PROP R PERFORMANCE REVIEW 2008/2009 FISCAL YEAR

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## **EXECUTIVE SUMMARY**

AF Consultants (AFC) was initially retained by the Santee School District in March 2008 to review the overall performance of the District's Proposition R Bond Program. During that review, concluded on June 15, 2008, AFC focused on the 2007/08 Fiscal Year activities and subsequently made several recommendations for improvement.

AFC was once again retained in May 2009 to review the program and update progress made toward completing the program within available resources. The purpose of our engagement was to evaluate several new areas for review and to recommend specific measures for continued improvement of the program. Overall, AFC reviewed four (4) focus areas and made recommendations to the District for improvement.

The following summary highlights the areas and gives corresponding recommendations based on our observations. Included in the report are:

## **SECTION 1: UPDATE THE FACILITIES PROGRAM**

AFC reviewed program activities during the 2008/09 Fiscal Year, State Funding issues, ICOC activities, District organizational changes, and our prior recommendations to see if they have been implemented. Overall this year has seen the completion of Phase 1 projects ahead of schedule but the state fiscal crisis has temporarily halted progress toward completion of the Phase 2 projects. Because we found inconsistencies in the reported project final costs to the Board we recommended the following:

### ***Recommendation 1.1:***

*AFC recommends that a summary agenda item be prepared for all projects completed during Phase 1. Those final costs should be accurately reported to the Board of Education for ratification.*

Because there has been a temporary slow-down due to inadequate state funding we made the following recommendation:

### ***Recommendation 1.2:***

*AFC recommends that the District take the time to re-evaluate the program accomplishments to date and the remaining program projects to be completed. Now is an excellent time to assess:*

- *Program spending and commitments to date*
- *Priority for the completion of the remaining projects given the state funding constraints*
- *The re-scheduling, re-budgeting, re-scoping and other issues present under various state funding scenarios*

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## **SECTION 2: ARCHITECTURAL DESIGN TEAM AND CONSULTANT COSTS**

AFC reviewed the selection process and architectural contracts negotiated with the new architect. We reviewed the new contract format and made the following recommendation:

### ***Recommendation 2.1:***

*AFC recommends that if future architectural contracts are negotiated by the District that they be carefully reviewed by legal counsel and that they continue to be tailored to the construction methodology employed, scope, and schedule for the projects to be executed.*

Because the delay in state funding may affect the future costs of architectural services, other consultants fees, and DSA costs we recommended:

### ***Recommendation 2.2:***

*The District should verify that there will be no additional future costs for architectural or other design related services caused by project delays, or if that is found not to be the case, should budget for extra services and DSA approvals accordingly.*

Because several commitments were made to Phase 2 projects prior to curtailing construction we recommended:

### ***Recommendation 2.3:***

*AFC recommends that the District, if they have not all ready done so, evaluate all open vendor contracts and determine which will continue, which are partially completed, which will be terminated/suspended, and which will be renegotiated in the future.*

### ***Recommendation 2.4:***

*AFC recommends that all vendors be given formal notice relating to the status of their current contractual agreements. Further, they should be notified that once the Phase 2 projects are restarted, the District will re-evaluate their proposals for scope, budget, and schedule to ensure that the terms of their agreements have not changed.*

## **SECTION 3: SELECTED PROJECT ANALYSES**

AFC reviewed all of the contract files on the Phase 1 projects completed during 2008. We commented on the project reports being used under the Lease Leaseback methodology and made the following recommendation for future contracts:

### ***Recommendation 3.1***

*AFC recommends, that in the future when a Lease Leaseback contract is utilized, the District review the contractors job cost report on a monthly basis to ensure that they are paying the*

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*lesser of cost to date or the percentage of completion of the Guaranteed Maximum Price. Additionally, we suggest that the District not include General Conditions as a fixed percentage of construction. Preferably General Conditions should be based on actual cost (perhaps with a Not-to-Exceed) and subject to audit on a monthly basis and subject to recovery of purchased equipment/tools/supplies.*

Because AFC found that final Applications for Payment were not reconciled and reviewed carefully we recommended:

***Recommendation 3.2:***

*AFC suggests that the District assign a staff member the specific task of reconciling all final construction invoices to ensure the contractor appropriately reflects contingency usage and that final amounts due are properly calculated prior to releasing final payment.*

Because we found that there were no summary reports that had been developed by project and that the entire program had not been "rolled up" in a post performance report we made the following recommendation:

***Recommendation 3.3:***

*AFC recommends that the District develop bond spending accounting reports that shows low level individual project reporting and post performance models that "roll up" to program reporting.*

## **SECTION 4: CHANGE ORDERS**

AFC reviewed the completed projects and change orders associated with those projects We reviewed signature authority and whether the District staff followed the delegation granted by the Board and made the following recommendation:

***Recommendation 4.1:***

*AFC recommends that, in the future, appropriate signatures are obtained on all change order documents and that the delegation of authority is followed.*

We reviewed the time it took to process change orders, documentation and estimating back-up, and based on managing risk made the following recommendation:

***Recommendation 4.2:***

*AFC recommends that the District diligently strive to keep the time from receipt of a Change Order Request (COR) to the processing of a final Change Order to within 30-45 days to reduce risk. It should be also noted that the District urge their contractor's to submit*

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*proposed change order requests on a timely basis as some of these delays were due to untimely DEB submittal processes.*

AFC reviewed the reasons given for the change orders and verified errors and omissions and made the following recommendation:

### ***Recommendation 4.3***

*The District should be the ONLY entity classifying the changes by reason code.*

Over all we found the change order rate to be excellent for a program of this nature and found an extremely low errors and omissions rate.

In summary, we collected significant data regarding the bond program. Process improvements have been made since our last report and communication has been effective. Phase 1 was completed ahead of schedule, with significant savings, and within the scope of the bond language.

Our detailed report follows this executive summary and broadens the areas of our investigation.

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## **SECTION 1: UPDATE THE FACILITIES PROGRAM**

AF Consultants (AFC) was initially retained by the Santee School District in March 2008 to review the overall performance of the District's Proposition R Bond Program. During that review, concluded on June 15, 2008, we focused on the 2007/08 Fiscal Year activities and subsequently made several recommendations to the District for improvement.

AFC was once again retained in May 2009, to review the program and update progress made toward completing the program within the available resources. The purpose of this section of the report is to update activities during the 2008/09 Fiscal Year, review significant Board and administrative actions taken to keep the program on schedule, track changes to project budgets, review the implementation of previous recommendations, review the status and changes made to state matching funds, and report on significant issues relating to program completion.

AFC reviewed the following documents:

- *Santee School District web site: [www.santee.k12.ca.us](http://www.santee.k12.ca.us)*
- *Santee School Board Meeting Minutes from July 10, 2008 to June 29, 2009*
- *Santee School Board Facilities Workshop Minutes, November 17, 2008 & May 2, 2009*
- *Santee School District Facilities Committee Annual Report, dated July 2009*
- *Proposition R Independent Citizen's Oversight Committee (ICOC) Manual, updates from April 2, 2008 to August 5, 2009*

### **A. 2008/09 FY Bond Program Activities:**

By April 2008, all plans and schedules for the Phase 1 projects to be constructed during the 2008/09 FY had been finalized. Phase 1 included the modernization of five schools, a 20-classroom addition at Cajon Park, and three 10-classroom additions at Carlton Oaks, Carlton Hills, and Rio Seco schools. The bid for the first project, the Cajon Park 20-classroom addition, had been secured at a savings of approximately \$1.0 million. The remaining five modernization projects were bid in early May 2008 and results for each school, as well as alternates, were discussed with the Board at their May 10, 2008 workshop. The bids for the three 10-classroom additions were received in September 2008. According to District records, planned value engineering efforts resulted in over \$10.0 million in savings. Pre-procurement of HVA/C units, approved on May 6, 2008, resulted in significant time savings to the modernization schedules. Alternates proposed to the Board amounted to over \$18.0 million. The following amendments to the Lease Leaseback contract with Barnhart were approved by the Board at their June 3, 2008 meeting:

#### Phase 1 Projects:

- |   |             |
|---|-------------|
| • Cajon Park – Modernization & Library Tech - | \$6,744,897 |
| • Sycamore Canyon – Modernization             | \$6,043,409 |

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• Carlton Hills – Modernization & Library Tech	\$7,331,432
• Rio Seco – Modernization & Library Tech	\$8,518,545
• Carlton Oaks – Modernization & Library Tech	\$8,542,887
Sub-Total	\$37,181,170

This action, coupled with the previously approved 20-classroom addition of \$10,132,317, raised the Lease Leaseback contracts awarded for the first six projects to \$47,313,487. Projected Phase 1 construction amounted to approximately \$76.8 million through June 2009. Financing appeared to be secure, and at this point, the program was to be financed by the initial \$18.0 Million in General Obligation (GO) Bonds sold in May 2007 and another GO bond sale of \$15.0 Million to be sold in early 2009. This was to be coupled with the bulk of state matching funds of approximately \$30.0 Million to launch the Phase 2 projects, and bridge financing in 2010 which would postpone the sale of additional bonds until 2011 and 2013.

By the September 2, 2008 Board meeting, various adjustments to the Lease Leaseback agreement were made and Builder's Risk insurance was added to the contract at a cost savings to the District. Several unforeseen construction costs, which required Board action, were shared by District administration with the Board and approved. The previously bid 10-classroom additions at Carlton Hills, Rio Seco and Carlton Oaks were approved and amended to the Lease Leaseback contract as follows:

• Carlton Hills – 10-classroom	\$5,756,499
• Rio Seco – 10-classroom	\$5,591,066
• Carlton Oaks – 10-classroom	\$5,668,543

At the September 2, 2008 meeting, the Board elected to terminate the architectural agreement with Sprotte + Watson Architects even though many of the projects were under construction. Sprotte + Watson had been the District's Architect of Record since the inception of the Bond Program. On September 5, 2008, a Request for Qualifications (RFQ) to secure a new architect was issued. A selection panel was convened and four (4) firms were selected for interview with Trittipio Architecture and Planning (TAP) ultimately being selected by the committee. While a contract was being negotiated with TAP, the District elected to have the Director of Facilities Modernization act as the interim Architect of Record, work with the new architect under a Memorandum of Understanding, and to issue payments directly to architectural sub-consultants. In order to assist the Director, a contract amendment with LL Hendrix, Hendrix California School Construction Services, was authorized on October 21, 2008. A final architectural agreement with TAP for the completion of Phase 1 projects was approved by the Board at their November 4, 2008 meeting.

At the November 13, 2008 Board meeting, project status, change order logs, and progress schedules were shared with the Board on all active projects. Projects appeared to be on schedule and within budget at this point in time. Since projects were moving rapidly to

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construction, an amendment to the Barnhart pre-construction agreement was made to accelerate payments to them and to add \$30,000 for additional estimating work at each of the six schools in pursuit of additional grant funds. Cash flow discussions continued at Board meetings through the end of the calendar year.

On December 16, 2008, with projects nearing completion, the District elected to reduce the Barnhart retention from 10% to 5% on the five Phase 1 modernization projects. By January 2009, the Notice of Completion was filed on the Sycamore Canyon modernization and Cajon Park 20-classroom addition with the final costs being recorded as:

- Sycamore Canyon – Modernization \$4,919,550
- Cajon Park- 20-classroom \$10,132,317

Approval of the Phase 2 contract with Trittipio Architects was reviewed and approved at the January 20, 2009 Board meeting. Incentive payments of \$687,642 which were returned to program funds were received from SDG&E from the "Savings by Design" program for the completed schools. These incentive funds were for energy savings measures incorporated in the design of the schools.

By early January 2009, with the announcement of the Governor's Budget, the fiscal situation in the State of California was well known. Discussion continued on methods of alternate financing and other grant programs available for the District to pursue. By the time the state budget update was given to the Board on January 20, 2009, the status of state funding was confirmed and several meetings were held in February 2009 to discuss the status of the Capital Improvement Program and state budget. The District continued with the design process for the Phase 2 projects to be constructed during the summer of 2009 in anticipation of a state budget resolution and receipt of funding.

On April 21, 2009, the Notice of Completion for the Cajon Park, Carlton Oaks and Rio Seco Modernizations were approved. These projects were closed out in May 2009, with the following savings returned to the District as reported to the Board:

- Cajon Park Modernization \$200,402
- Carlton Oaks Modernization \$446,689
- Rio Seco Modernization \$459,241

Total = \$1,106,332

Revised cash flow analyses and Capital Improvement Program (CIP) financial plans for the Phase 1 and Phase 2 projects presented to the Board on May 2, 2009, led to the approval of the sale of Bond Anticipation Notes (BAN) in an amount of up to \$19.0 Million as bridge financing for the completion of the Phase 1 projects, and as funding to launch the Phase 2 projects. While the State still held frozen the qualifying apportionments that were due, the District was still hopeful that funding would materialize.

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The District also approved amendments to the Lease Leaseback with Barnhart for the following Phase 2 schools which had been recently bid:



The Chet Harritt Ball Field project had a joint use funding commitment of \$274,150 from the City of Santee. This was urgent and needed to be executed by late April 2009 or the funds would have expired.

At the May 19, 2009 meeting, the retention on the 10-classroom projects at Rio Seco, Carlton Oaks, and Carlton Hills was reduced since the projects were nearing completion.

At the May 22, 2009 Board CIP workshop, important decisions regarding continuation of the Phase 2 program was made. Based on the anticipated receipt of the BAN financing in July 2009 of \$11.0 million (a reduced amount from the \$19.0 M approved) and the state's deferral of eligible funds of \$33.0 M, the majority of the Phase 2 work was suspended. Even though several Phase 2 projects had already been bid, an agreement with Barnhart was reached to delay projects already in the cue until the State could distribute the necessary funds to continue the construction program. Cash flow projections indicated that the District could no longer sustain the program without the infusion of State funds.

At the June 22, 2009 Board workshop, the District decided to fund only the infrastructure work at Chet Harritt and Prospect Ave., meet commitments made to close out the Phase 1 projects, construct only one ball field at Chet Harritt to meet the joint use requirements of the City of Santee, and fund miscellaneous Phase 2 design work during the coming year. All other work on Phase 2 would be re-scheduled for the summer of 2010 or later.

## **B. State Funding Update:**

### **B.1: State Fiscal Crisis**

The State of California is currently in a fiscal crisis with an estimated 2-year budget deficit of over \$60.0 billion. Simultaneously, worldwide financial markets are in turmoil. The State Treasurer announced in early February 2009 that the bond market was closed to California and the state could not sell bonds. This situation remains, even though the state legislature has finally reached agreement on a 2009/10 budget.

On December 17, 2008, the Pooled Money Investment Board (PMIB) took action to halt the disbursement of cash from the state's Pooled Money Investment Account (PMIA) for capital projects, including public schools, with the intent of preserving cash for state obligations. The Office of Public School Construction (OPSC) typically uses cash from the PMIA to release

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funds for projects that have been previously approved by the State Allocation Board (SAB). At the March, April, and May 2009 SAB meetings, an "unfunded" list of projects was approved with no guarantee of future funding, but action gave the indication that these projects had passed the SAB approval hurdle. Approximately 850 projects valued at over \$2.5 billion were on the "unfunded" list including the five Santee School District modernization projects under construction with Phase 1.

While these projects are approved, there is currently no authority to allow the state to sell bonds, therefore there are few alternatives left to school districts who are relying on state funding matches to continue their programs. It is uncertain when the State of California will be solvent enough to issue new bonds. Some are predicting several years will pass before funding is actually received.

## **B.2: Santee School District State Funding**

The original bond program, approved in November 2006, envisioned a total program of \$165.0 million made up of \$60.0 million in General Obligation Bonds, \$20.0 million of state facility funds, \$35.0 million of developer fees and mitigations, \$20.0 million of internal borrowing, grant and joint use, and \$30.0 million from the sale of surplus property.

During the 2007/08 FY, the District was able to secure additional state funding for modernization (\$5.6 M), Disabled access funding (\$2.6 M), and state joint use funding (\$7.7 M). As of the end of June 2008, state funding had increased from \$20.0 M to \$36.9 M. These increases were offset by a precipitous slowing of anticipated developer fees, largely the Barratt American development of Fanita Ranch, and a decision not to sell surplus property, but to long-term ground lease it instead. This resulted in the program being downsized to \$128.0 M on November 17, 2008.

During the 2008/09 FY, the District sought and received approval to apply for Facility Hardship Replacement funds for the Santee School (\$6.0 M), received joint use funds from the City of Santee (\$0.3 M), developed Qualified Zone Academy Bonds (QZAB) financing, sold Certificates of Participation (COP), and qualified for additional eligibility funds from the state. This was off-set by the loss of the surplus property revenue. This resulted in an increase in anticipated state funding to approximately \$52.0 M by the end of June 2009. This raised the total capital improvement program to \$129.7 M.

## **Observations:**

All five (5) Phase 1 Modernization projects have been completed within budget and on schedule. In addition, the 20-classroom addition at Cajon Park was completed and occupied in January 2009, and the three 10-classroom additions at Carlton Hills, Carlton Oaks, and Rio Seco were nearing completion by July 2009. Summaries of those project costs and budgets are included in Section 3 of this report. We noted that several of the projects taken to the

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Board at close-out were incorrectly reported to the Board at the December 16, 2008 and April 21, 2009 meetings. These reports are in need of correction.

Prior to the emergence of the State's fiscal crisis, the District was poised to continue with constructing Phase 2 projects during the summer of 2009 followed by a Phase 3 in 2010. These projects, when started, would have put the District well ahead of schedule with significant cost savings based on the recent bids received. The District staff continues to seek additional funding sources from the state and other grants and actually increased the amount of funds for the program significantly during the 2008/09 FY. Normally we anticipate that the maximum state funding would be in the range of 25-35% of the total program costs. In the case of the Santee School District, it is now nearing 40%, which is commendable. Because of the aggressive construction schedules adopted by the District they were fortunate to complete more school modernizations than might have been expected given the lack of state funding.

The current circumstances exacerbated by the State of California fiscal crisis and slumping property values have slowed the program completion down at no fault of the District. It is currently anticipated that all of the General Obligation bonds may not be able to be sold until 2013/14 at the earliest. This may extend the program completion dates until 2014/15. Since most of the school modernization work needs to be completed during the summer months, each successive monthly delay in selling state bonds and reimbursing the District perpetuates the delay in completing the program. The District continues to meet the intent of the Bond language and aggressively pursues other means of funding the program, while taking a conservative and cautious approach to scope and budget, maximizing value engineering options, and cost saving measures as they proceed. Until the approved entitlements from the state are received, property values and tax assessments increase in Santee, and stabilization of the economy improves cash flow, the District will continue to have a partially completed program.

### ***Recommendation 1.1:***

*AFC recommends that a summary agenda item be prepared for all projects completed during Phase 1. Those final costs should be accurately reported to the Board of Education for ratification.*

### **C. Independent Citizen's Oversight Committee (ICOC) Activities:**

The original Independent Citizen's Oversight Committee (ICOC) was established by the District in March 2007 and met for the first time in May 2007. A web site was established for the Prop R bond program and ICOC minutes are maintained in that location for public review. A comprehensive Prop R manual containing agendas, meeting minutes, and significant board items is maintained by District staff and updated for each meeting. ICOC meetings are open to the public at large. Committee membership remained stable until May

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6, 2009, at which time three (3) positions became vacant. As of the last ICOC meeting on August 5, 2009, these positions had not been filled; however, the District is actively recruiting membership. There are no sub-committees of the ICOC since the program is easily managed. The District is represented at the meetings by the Director of Facilities, the Assistant Principal, and a Board Member.

The ICOC met monthly from June 2008 until November 2008 and has since reduced meetings to quarterly sessions due to the decrease in construction activity. The ICOC actively reviews program and project progress, financial status reports, changes to scope and schedules, board agenda items, and other areas of interest. They prepare quarterly and annual reports which are distributed to the public. These are well prepared and are informative. There has been little public attendance at the meetings and all information has been transmitted smoothly. The program has achieved the degree of "transparency" necessary to be successful. Even the pending financial crisis has been met with public understanding. AFC has had the privilege of attending the last two ICOC meetings. The ICOC has recently discussed how to transmit information regarding the future status of the program, especially to those schools that have not been modernized.

### **D. District Organizational Changes:**

During the past year, several organizational changes occurred within the Santee School District administration. The Superintendent, Assistant Superintendent, and the Director of Maintenance left employment with the District during this past fiscal year. Each was a key stakeholder in the development and execution of the Prop R Bond Program. In addition, the Architect of Record for the design of the projects within the program was replaced and the Director of Facilities was tasked with fulfilling an interim role as Architect of Record for the projects under construction and design review until a new architect was procured. All positions, with the exception of the Director of Maintenance, have since been filled by the District and are performing their respective roles in the management of the bond program.

During the course of our reviews we often find that many Districts maintain and establish tools to define the roles and responsibilities of the various stakeholders in the bond program. This is normally accomplished through the preparation of a comprehensive Program Policy and Procedures Manual. Such a manual can be particularly effective when organizational changes occur. It is especially effective where programs are of significant size, where Program Managers/Construction Managers are hired, and where complex construction methodologies are utilized. AFC made a recommendation to the District to develop such a document in our 2007/08 report, however, the District because it is small and understaffed decided to concentrate its efforts on overall program goals.

Based on our review we believe that the Santee School District made a successful transition to a new administrative staff who are now actively involved with the program. The roles and responsibilities have remained unchanged and the program is functioning well. The

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unfortunate replacement of the original Architect caused minimal disruption to program execution, although the District was fortunate to have a registered architect on staff to fulfill the interim role as Architect of Record while they transitioned to a new architect. Additional assistance during construction was procured with bond funds to assist with the transition plan and the architect was replaced within two months without a loss of momentum.

## **E. Implementation of Prior Recommendations:**

In our 2007/08 Performance Review, AFC made nineteen (19) recommendations and suggestions for improvement to the District's program. On September 2, 2008, the District administration reported their responses to our report to the Board. Some highlights of those recommendations that improved the program were:

- **AFC recommended preparing quarterly cash flow projections, strengthening cash flow planning, monitoring and reporting procedures, and reporting site level expenditures.** This recommendation was implemented and became more necessary as the program went through the creation of scenarios based on the available funding. Numerous reviews of the project cash flow and budget revenue assumptions were made during the 2008/09 FY. Capital Improvement Program progress reports at each school site were more frequently reported to the Board as a result of strengthening the reporting mechanism. Consultants were also hired to assist in seeking additional funding and to sell Certificates of Participation (COPS) and Bond Anticipation Notes (BANS). We believe implementing this measure helped the Board and administration make timely and informative decisions during the year.
- **AFC recommended strengthening the value engineering and constructability reviews.** This measure has been implemented and is also contained within the new architectural agreement. It has helped the District maintain cost controls. As a result of better constructability review, significant savings have accrued with limited change orders. Value engineering has saved the District over \$10.0 M according to the report made to the Board in May 2008 and allowed the Board to make decisions regarding priorities when the absence of state funding became apparent.
- **AFC recommended developing Design Standards.** Because we felt this was an important element to integrate early, this measure was implemented at our urging prior to the completion of our first report. On April 15, 2008, the Board adopted a resolution to adopt compatibility, uniformity, and standardization for proprietary building system components. Long term savings in maintenance will likely accrue as a result of this standardization measure.

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- **AFC recommended the District consider using another software system.** The District decided to abandon the use of the Colbi software system and instead chose to hire an accountant and adopt an Excel spreadsheet format for budget reporting. This saved the District approximately \$100,000 per year. Although we recommended that the District investigate another system being developed by another District we are familiar with, it proved to be cumbersome and incapable of preventing double entries in the required Financial Information System (FIS) which is the reporting mechanism to the County Office of Education. To date, AFC has not identified a specific accounting system that fully addressed program needs; however the District's current accounting system seems to be functioning reasonably well.
- **AFC recommended that the District revise and clarify certain aspects of the Architect agreement.** The District, after attempting to reach agreement with the original architect, chose to terminate that agreement and seek a new architect. The new architectural agreement that we reviewed became the basis for negotiations with the selected architect. Some of our recommended changes to the basic agreement were adopted and implemented. We believe the new agreement is more in line with the Lease Leaseback methodology being used to construct the program.
- **AFC recommended that the District keep logs of change orders as projects were constructed and to keep logs of time to payment for vendors.** Both these recommendations have been implemented to some degree and our review of those activities is reported in other sections of this report.

### **F. Overall Assessment:**

This year has been a difficult one for the administrative staff and Board of Education. The program was originally poised to continue at an accelerated pace and to achieve completion of the program on scope, within budget, and ahead of schedule. The District has done an excellent job of maximizing their eligibility for state funds. The economic crisis has unfortunately slowed progress toward achieving program goals. The District has maintained the overall intent of the bond language approved by the voters in November 2006 and has continued to make rational and logical decisions regarding the program as they move forward with caution.

Because the completion of the program has been delayed due to lack of state funding reimbursement and construction activities have slowed we make the following recommendation:

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## ***Recommendation 1.2:***

*AFC recommends that the District take the time to re-evaluate the program accomplishments to date and the remaining program projects to be completed. Now is an excellent time to assess:*

- *Program spending and commitments to date*
- *Priority for the completion of the remaining projects given the state funding constraints*
- *The re-scheduling, re-budgeting, re-scoping and other issues present under various state funding scenarios*

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## **SECTION 2: ARCHITECTURAL DESIGN TEAM and OTHER CONSULTANT COSTS**

Prior to this engagement, AFC was notified that the District elected to terminate the prior program architect during the last quarter of the calendar year 2008. As part of our current review, AFC was asked to re-examine the architectural design team costs and assess whether the recently negotiated fees with the new architect were reasonable. In addition, we reviewed the selection process, transition plan, and new architectural agreement to see whether our previous recommendations, as they related to program design costs, were followed.

Since other consultants were involved with the program development, we inspected various other consulting agreements and/or extra service amendments made with these other consultants during the 2008/09 FY. We additionally reviewed the successive Lease Leaseback amendments for construction and a subsequent amendment with Barnhart, the builder, for the original pre-construction agreement.

AFC examined the following documents:

- *Request for Qualifications (RFQ) for Architectural Services prepared by Eric Hall & Associates, dated September 5, 2008*
- *Interview selection process and supporting documents*
- *Architectural Agreement between District and Trittipio Architecture and Planning for Phase 1, dated November 5, 2008*
- *Architectural Agreement Amendment between District and Trittipio Architecture and Planning for Phase 2, dated January 21, 2009*
- *Consultant Agreement with L.L. Hendrix, California School Construction Services for Supplemental Contract Work, dated October 22, 2008*
- *Extra Services Agreement for Additional Materials Testing Services with Ninyo-Moore, Inc., dated October 22, 2008*
- *Amendments #1 thru #9 to the Lease Leaseback agreement with Barnhart, Inc.*
- *Amendment to the Pre-construction Agreement with Barnhart, dated October 21, 2008*
- *Invoices for architectural services from Trittipio Architects*

### **A. Request for Qualifications Process:**

Commensurate with the termination of Sprotte + Watson Architecture and Planning (SWAP) services, the District prepared and issued a RFQ on September 5, 2008. Proposals were due back to the District on September 23, 2008, with selection and recommendation to occur prior to the October 7, 2008, Board of Education meeting at which time the Board would ratify the selection process.

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The RFQ was prepared by a facilities consultant, Eric Hall & Associates, who gave an overview of the status of the design of each project, project schedules, and a general summary of the work remaining to complete the program. On September 24, 2008, Eric Hall and three District administrators pre-screened applicant proposals. At the Board workshop on September 26, 2008, four (4) firms were selected for interviews. A panel, consisting of nine (9) members, interviewed the applicants and recommended the selection of Trittipo Architecture and Planning (TAP) to the Board. They were introduced to the Board at the meeting on October 7, 2008, and the selection was ratified.

Based on our review we found that the RFQ was well written given the circumstances and status of the program at the time. At the time of the RFQ, projects were in various stages of completion making it difficult to understand the status of all projects and work completed to date. Some projects were at DSA for approval, some ready for bid, and others already in construction.

The selected architect ultimately demonstrated previous experience and successes with taking over other programs in various stages of completion. They also had previous experience working with members of the Capital Improvement team. The selection process was well documented by the District and based on qualifications and previous experience, rather than fee. The selection process was streamlined and, because of the urgency, completed within one month.

## **B. Contract Format:**

In our 2007/08 FY report, we recommended that the District, in consultation with legal counsel, modify and clarify the terms of the architectural agreement with Sprutte + Watson Architects (SWAP). We were concerned that the original agreement did not align itself with the Lease Leaseback methodology, and that it did not fully define scope, budget, and schedule in detail as it pertained to the Santee modernization program.

On September 2, 2008, the Santee Board of Education elected to discontinue and terminate the agreement with SWAP. The administration was given until October 7, 2008, to return to the Board with a new agreement and to recommend a new architect for selection.

The prior contract with SWAP was not based on a standard American Institute of Architects (AIA) document, nor a format that is commonly used. In the original contract, the scope of service was defined within the body of a 17 page contract format; had provisions to indemnify the architect for change orders; required the architect to prepare a statement of probable cost (cost estimate) at each phase; and contained no reference to the Lease Leaseback construction methodology being implemented to construct projects within the program. Several fundamental flaws were noted during our previous review and we recommended that the District revise sections of the contract and attempt to clarify these modifications with SWAP. Unfortunately, those renegotiations were unsuccessful.

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Based on our review, the new design contract format authored by the District now clearly defines the Lease Leaseback delivery methodology, contains provisions for extra services with a commensurate approval process governed by the District, has stronger termination and design reuse credit language, and clearer payment terms, especially in cases where amounts are disputed. The contract contains provisions regarding the expected standard of care (errors and omissions), a complete scope of work defined by the District attached as Exhibit A, the responsibility of the Architect to redesign, at its cost, when bids exceed 5% of the estimated cost, and definitions of its responsibility in relation to the contractor/builder under the Lease Leaseback methodology. The contract was carefully reviewed by District legal counsel, an independent facilities consultant, and the County Office of Education. AFC had an opportunity to provide input as well prior to its execution and adoption by the Board on November 4, 2008.

We found that the contract format is similar to other architectural agreements that are being utilized throughout the industry. Although we believe that every agreement must be negotiated individually and may contain minor flaws, this agreement is more in keeping with the requirements for the Santee program.

The final agreement with Trittipio Architecture and Planning for the Phase 1 schools contains an attachment B-1, which outlines the primary fee for the remaining start-up costs, construction administration, record documents, and close out of projects. The attachment breaks down the work by school and by phase. Subsequent amendments to the basic agreement for the Phase 2 schools contain similar provisions.

As examples of future contract provisions that may be considered, AFC recently had the opportunity to review another District's program and architectural contracts. We were glad to find several provisions within their agreements that are common to all school districts. For one, there was a particular emphasis on attendance at board meetings and workshops which we thought was an excellent addition to the basic contract terms. Another district also chose to negotiate a fee schedule which was slightly less than the standard State Allocation Board (SAB) recommended fee schedule. While Santee School District has already executed their agreements, it is worth noting that all architectural agreements can be tailored to suit the particular circumstances of the Owner and we would encourage that be done in the future.

### ***Recommendation 2.1:***

*AFC recommends that if future architectural contracts are negotiated by the District that they be carefully reviewed by legal counsel and that they continue to be tailored to the construction methodology employed, scope, and schedule for the projects to be executed.*

Since the Santee program may be delayed approximately one to two years from the anticipated start of Phase 2 construction, a possible re-start of the DSA code approval process may occur, or revisions to budget and scope may affect the architectural services

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because of time delays. Hourly rates for architectural services may also need to be amended because of time delays.

It is unclear what the affects stemming from the recent delay in state funding may have on other aspects of the architectural and other agreements now in place over time. Quite often a new code is adopted while plans remain "shelved" and when a "re-start" is begun, new and additional fees will apply. We therefore make the following recommendation.

### ***Recommendation 2.2:***

*The District should verify that there will be no additional future costs for architectural or other design related services caused by project delays, or if that is found not to be the case, should budget for extra services and DSA approvals accordingly.*

### **C. Transition Plan:**

Since design work on the projects needed to commence immediately, the District entered into an interim agreement, a Memorandum of Understanding (MOU), with Trittipio Architecture and Planning on October 7, 2008, in order to begin work until a formal agreement could be negotiated. The MOU contained an upset fee of \$350,000 to be billed at hourly rates included as an attachment. During this interim period, the Director of Facilities Modernization, a registered architect in the State of California, also was to act as the interim Architect of Record and sub-consultants were to be paid directly by the District. Assistance in additional project construction administrative management was also achieved during the transition period with a \$36,000 amendment to a contract with L.L. Hendrix, California School Construction Services, approved October 21, 2008.

A formal agreement for architectural services to complete the Phase 1 schools was presented to the Board at their November 4, 2008 meeting. At the time of termination of the SWAP agreement, the District estimated the cost of completing Phase 1 architectural work at \$1,140,237. The agreement with Trittipio for Phase 1 was for \$1,056,912, including reimbursable expenses. This was reported to the Board as slightly less than the amounts originally anticipated to complete the work.

At their meeting of January 20, 2009, the Board approved an amendment to the basic agreement for \$2,540,763.52 with TAP for the remaining four (4) Phase 2 schools and some additional work for the Phase 1 schools which was identified by TAP once they became engaged. The total agreement therefore was for \$3,597,675.

It was unclear to AFC if this was less than the estimated balance of work remaining under the original SWAP agreement. We did not investigate that concern. We would normally have anticipated the District would have paid higher fees to the new architects because of the nature of the restart process, unknown sub-consultant arrangements, and the extensive

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review of project status required. Because it would have been complicated to assess those costs we could not tell if the transition severely impacted the program costs.

AFC found that the transition from one architectural firm to another had gone smoothly. It is interesting to note that the transition was accomplished within a two month period. Negotiations with Trittipa have apparently gone smoothly as well.

## **D. Lease Leaseback Amendments:**

AFC had the opportunity to track the Lease Leaseback Amendments with Barnhart for the Phase 1 and Phase 2 projects. As each project was bid and approved, an amendment to the original agreement was formally approved by the Board. There were Amendments #1 through #9 made during the 2008/09 FY and several adjustments made to each of those documents. Although Amendments #7 through #9 were eventually reduced to cover only the necessary infrastructure for the Phase 2 projects at Chet Harritt, Hill Creek, and Prospect Avenue, when they were suspended, all Lease Leaseback documents followed acceptable procedures.

## **E. Other Consulting Agreements & Amendments:**

Limited additional consulting agreements or extra services were authorized during the 2008/09 FY. They were as follows:

- An additional services agreement for \$21,000 with Ninyo and Moore was authorized for materials testing at the Cajon Park – 20-Classroom project primarily to cover additional testing when the bridge was added to the project's scope. This agreement was authorized on October 21, 2008. Minor work at the other five schools in Phase 1 was also noted as requiring additional services.
- An additional services agreement with L.L. Hendrix, California School Construction Services was authorized for \$36,000 to provide construction administration assistance with the transition plan on October 28, 2008.
- An agreement with an unknown party for \$50,000 to provide supplemental survey work at the Chet Harritt Baseball Field and the 10-Classroom Addition was authorized by the Board on October 7, 2008. We note that this firm was not identified in the Board agenda item. Upon discussion with the District staff we understood that a contract was entered into with Lightfoot Associates to execute this work.
- An amendment to the original pre-construction agreement with Barnhart was executed in the amount of \$30,000 to assist the District in seeking additional grant funding from the State. Seeking this additional funding required that further estimating is done at each of the five schools under construction in Phase 1. With

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that same amendment, since the program had moved to construction more quickly than anticipated, an adjustment to the payment schedule for pre-construction services was also approved on October 21, 2008 to accelerate payments to Barnhart.

- An agreement for additional hazmat sampling, reporting, and removal was made with Western Environmental and Safety Technologies, Inc. (WEST) for work on the Phase 2 schools.
- An amendment to the on-site DSA Inspector of Record, and staff extension services contract with L.L. Hendrix, was approved by the Board on May 2, 2009, for \$125,000 for the Phase 2 schools.
- An agreement for survey work at Pepper Drive, Chet Harritt, and Hill Creek to support the 10-Classroom additions was executed with C & V Consulting, Inc. for \$16,100 on May 5, 2009.
- An agreement with George Mercer, Landscape Architects, was executed for \$45,000 based on a time and material basis. This agreement authorized on May 19, 2009, covered design for a split irrigation system at all schools in an effort to save on domestic water usage.
- An agreement with Merrick+ Associates in the amount of \$7,500 was executed on May 19, 2009, to evaluate the domestic water usage and to document savings in sewer charges.

### **Observations:**

In our prior report, we noted that expenditures for materials testing, inspector of record, and other consultants seemed to be in line with industry standards. At that time, we did not have sufficient information to evaluate the extent of work required by the consultants' to execute the projects that had just begun construction. We recommended that the District financially monitor expenditures to insure that there were no causes for additional services. We have found that extra services cause line item budgets to be exceeded and can cause difficulty with maintaining overall project budget.

For the Santee School District, we were able to "back-check" all service contracts with materials & testing, surveyors, hazmat, and inspector of record consultants listed above and verify that there were no excessive requests for extra services. When we found additional service requests, they were justified and reasonable.

In the case of materials testing for the initial five schools, we were able to test the validity of those services provided by one vendor, Ninyo and Moore, and were able to verify the costs

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as a percentage of construction costs at each school site. Normally, we anticipate that materials testing services will range between 0.75% and 1.5% of construction cost. Following is a chart representing materials and testing cost at each school site charged by Ninyo and Moore:

Project	Final Construction Cost	Testing Cost	% of Construction
Cajon Park - 20 CR Addition	\$9,481,201	\$62,728	0.60%
Five School Modernizations	\$35,597,179	\$95,124	0.20%
Carlton Hills - 10 Classroom	\$5,756,499	\$56,812	0.90%
Rio Seco - 10 Classroom	\$5,591,066	\$56,812	1.00%
Carlton Oaks - 10 Classroom	\$5,668,543	\$56,812	1.00%
<b>TOTAL</b>	<b>\$62,094,488</b>	<b>\$328,288</b>	<b>0.50%</b>

As the chart demonstrates, the District paid less than the normal range for the overall program, but near the average for individual projects. As stated in our previous report, there was a distinct advantage of awarding an overall materials testing contract to one firm for all the projects within the program and the overall fees are within the range we anticipate.

Many of the contracts we listed as executed during the 2008/2009 FY were recently approved for continuation of services related to the Phase 2 projects. Now that these projects are in suspension, we believe that the District should evaluate all vendor contracts, determine which can/should continue to support the program, and which may be subject to renegotiation at a later date. Since delays in providing services may cause agreed upon rates to escalate causing extra service requests, and the timing for re-starting the project is unknown, we have the following recommendations:

***Recommendation 2.3:***

*AFC recommends that the District, if they have not all ready done so, evaluate all open vendor contracts and determine which will continue, which are partially completed, which will be terminated/suspended, and which will be renegotiated in the future. All purchase orders should be closed.*

***Recommendation 2.4:***

*AFC recommends that all vendors be given formal notice relative to the status of their current contractual agreements. Further, they should be notified that once the Phase 2 projects are restarted, the District will re-evaluate their proposals for scope, budget, and schedule to ensure that the terms of their agreements have not changed.*

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## **SECTION 3: SELECTED PROJECT ANALYSES**

As part of our engagement, AFC was asked to conduct a review of the contract files for each of the six (6) completed Phase 1 projects during 2008. One project, the Carlton Hills Modernization, had not been finalized at the time of this report and has been excluded. The five projects reviewed in detail were:

*Cajon Park - 20 CR Addition*

*Cajon Park - Modernization & Library Tech*

*Rio Seco - Modernization & Library Tech*

*Sycamore Canyon- Modernization*

*Carlton Oaks - Modernization & Library Tech*

All projects were executed using a Lease Leaseback contracting methodology with Douglas E. Barnhart (DEB) as the Builder/Contractor. Initial design was prepared and administered during construction by Sprotte+Watson Architecture and Planning, Inc. (SWAP) through September 2008. Some of the Phase 1 projects were completed by Trittippo Architecture and Planning who were engaged in November 2008, and have since been working on Phase 2 projects.

Our project reviews encompassed an examination of initial and final budgets, schedules, and other documents in an effort to analyze variances to schedule and other project matters. In addition, we looked at specific reports utilized in the management of the projects' budgets and shared with the ICOC at frequent intervals. We examined change orders, contractor invoices, and other vendor invoices to ensure that the District followed best business practices. Our review of change orders is addressed in Section 4 of this report.

### **A. Project Cost Reports:**

Generally, cost reports serve as an invaluable project management tool to monitor costs and provide a working tool to keep projects on track and within budget. Further, they provide historical data for owners to track project costs and can be used in future budgeting efforts.

Rather than adopt sophisticated project management software, commonly seen implemented by program management firms, the District adopted a simpler format. Because the District is small and understaffed, they initially utilized the "Account-Ability" software system developed by Colbi. Eventually the District replaced this system with a more simplified Excel format structure. This system has been maintained by the District accounting staff with input from the Director of Facilities Modernization and the District Assistant Superintendent. It is periodically updated and reports of project progress, budget, and schedule have been presented by the Assistant Superintendent to the Board of Education at various intervals

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during the year at District workshops and Board meetings. Projects are reported by school site rather than by project, therefore it was difficult to reconstruct particular project data.

Since the Lease Leaseback construction methodology was utilized and depends on a Guaranteed Maximum Price (GMP) being achieved, we were interested to see if contractor job cost reports were regularly produced by DEB during the course of construction. While the contract does not specifically state that such a report be produced, it is normal in the industry to have the contractor provide a monthly job cost-to-date report. It is prudent to compare actual contractor costs-to-date with monthly Applications for Payment. Such a report would reflect the General Conditions cost expended to date, actual job labor, material costs to date, fees, and other project costs. This type of report would ensure that the Contractor does not submit invoices in excess of costs incurred to date. This prevents the contractor from "getting ahead" on payments and, in effect, using the Owner's funds for other purposes. We often find that Contractors will invoice General Conditions as a percentage of completion rather than actual costs.

### **Observations:**

For the Santee projects, a contractual percentage was set at 10% to cover General Conditions and Contractor's fee which made it impossible to separate fee from General Conditions. No cost reports were submitted on a monthly basis and projects were invoiced as a percentage of completion.

Based on our experience, it is important for the District, as Owner, to ensure payments to the Contractor do not exceed the lesser of cost (plus fee) or the GMP percentage of completion. Although we are not in a position to comment on the contract language used, there appears to be a structural problem with the current Lease Leaseback contract format being used by Santee, as well as other districts. We believe that future refinement is necessary to include a review of monthly job costs.

It should also be noted that with a GMP contract, as is the case with these Lease Leaseback agreements, a Contractor may shift costs from one category to another with Owner approval as long as the GMP has not been exceeded. In other words, the final cost should be equal to the GMP or equal to the actual costs (plus fee) incurred. In the Santee case, all projects concluded with the cost being less than the GMP total after contingency reconciliations. We found no evidence that any additional savings were realized.

Often with a GMP contract, the contractor will purchase miscellaneous equipment or other items as part of the General Conditions cost. These items may include computers, software, tools, generators, and other items necessary to execute the work. These items should be turned over to the District at completion of the project and are considered recoverable. Because Santee did not require monthly cost reports or invoice backup, we were unable to

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determine if the contractor purchased this sort of equipment that should be turned over to the District. Further, because general conditions were fixed at a percentage of cost, this would more than likely preclude any recovery.

### **Recommendation 3.1**

*AFC recommends, that in the future when a Lease Leaseback contract is utilized, the District review the contractors job cost report on a monthly basis to ensure that they are paying the lesser of cost to date or the percentage of completion of the Guaranteed Maximum Price. Additionally, we suggest that the District not include General Conditions as a fixed percentage of construction. Preferably General Conditions should be based on actual cost (perhaps with a Not-to-Exceed) and subject to audit on a monthly basis and subject to recovery of purchased equipment/tools/supplies.*

### **B. Budget Savings:**

While early budgeting efforts in 2006/07 suggested that project scopes and budgets exceeded the available funds, they were eventually trimmed to realistically match the available funds for each project. Projects were divided into two phases with the bulk of the work occurring during the 2008/2009 FY.

As a baseline to test the possible budget savings on each project we used an Account-Ability report prepared by the District just prior to bid, dated 5/8/08. The only project which had been bid earlier was the Cajon Park 20-Classroom Addition, however the 5/8/08 report contained the appropriate information we were seeking for that project. The Carlton Hills Modernization project, while completed at the time of this report, has been excluded from our review because final project data was not available. The following table illustrates the possible savings that the District realized on the five (5) projects from pre-bid estimates until completion of the projects:

PROJECT	*Pre-Bid Budget	Original GMP	Bid Savings	Final GMP	GMP Savings	Overall Savings
Cajon Park - 20 CR Addition	\$10,760,520	\$10,132,317	\$628,203	\$9,481,201	\$651,116	\$ 1,279,319
Cajon Park - Modernization & Library Tech	7,234,767	6,744,897	489,870	6,544,495	200,402	690,272
Rio Seco - Modernization & Library Tech	11,618,443	8,518,545	3,099,898	8,052,721	465,824	3,565,722
Sycamore Canyon- Modernization	8,277,082	6,043,409	2,233,673	5,834,957	208,452	2,442,125
Carlton Oaks - Modernization & Library Tech	<u>9,358,378</u>	<u>8,542,887</u>	<u>815,491</u>	<u>8,094,892</u>	<u>447,995</u>	<u>1,263,486</u>
<b>TOTALS</b>	<b>\$47,249,190</b>	<b>\$39,982,055</b>	<b>\$7,267,135</b>	<b>\$38,008,266</b>	<b>\$1,973,789</b>	<b>\$9,240,924</b>

*\* Estimated based on Project Cost Report from Colbi dated 5/8/08 plus 18.5% ( made up of 10% GC's, fee, OH&P, 3.5% Contingency, and 5% Owner's Contingency )*

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In each case represented above, significant bid savings were realized. The five (5) projects displayed show an overall bid savings of \$7,267,135, or 15.4% of the original pre-bid budget estimates. At project finalization, the savings increase to \$9,240,924 or 19.6%.

Because there was an excellent bid climate during the early months of 2008, the District achieved significant savings. Had the remaining projects constructed during 2008 been included in the above chart, we found evidence that the overall savings would have been closer to \$11.0 M. This savings allowed the District to construct several 10-classroom additions which were not part of the original program.

## **C. Project Scope and Schedule:**

AFC, as part of the review, returned to the original scope and schedules as proposed for the Phase 1 projects and the overall program to discover if there had been delays to the schedules, or alterations to the scope of the projects, which would have been of concern.

As indicated in the early Facilities Modernization Implementation Plan, authored in February 2005 and updated after Bond approval in November 2006, the District has held a consistent view of the modernization needs of the nine (9) schools within the District. Phasing plans began to emerge in early 2007 which have been followed throughout the development of the program. Scopes of work promised by the bond issue to each school has been addressed, and scheduled phases have remained reasonably on target. No major delays to project completions have been noted, and no contractor claims have been received to date. There were no liquidated damages assessed as a result of project delays. Because of increased state funding and bid savings, the District has been able to add several 10-Classroom additions, not originally included in the program. With the exception of the recent hiatus causing Phase 2 project delays, the District completed Phase 1 on schedule.

## **D. Contingency Savings:**

The original contract called for the establishment of a Contractor's Contingency of 3.5% with 100% of any Value Engineering Savings credited to the Builder's contingency. Any remaining balances in the Contractor's contingency would be shared with the District at a 67%/33% split, with 67% being returned to the District as a credit to the GMP. Additionally, the District established a 5.0% Owner's contingency as part of the GMP.

As the below tables indicate, in most cases the contractor's contingency was actually closer to 3.0%, rather than 3.5%, when the final GMP was established. In only one case during the progress of work, the Cajon Park Modernization project was the Owner's contingency exhausted and used for change orders. In most cases the Contractor returned unused contingencies and saved the District costs.

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The following tables show the original contract amounts, each contingency, final shared savings, and the final GMP amount paid:

### Project 1:

<i>CAJON PARK - 20 CR</i>	Base Construction	Owner Contingency	Contractor Contingency	Final Contract
Original Amounts	\$ 9,352,429	482,491	297,397	\$ 10,132,317
<i>Contingency Percentage</i>		5.16%	3.18%	
Change Orders Issued		(48,698)	26,966	
<i>CO Percentage</i>		-10.09%	9.07%	
Remaining Balance		433,793	324,363	(433,793)
Contingency Split to Owner @ 67%			217,323	(217,323)
Final Contract Amount				\$ 9,481,201
Contingency Savings				\$ 651,116
<b>Savings Percentage</b>				<b>6.43%</b>

For Cajon Park – 20-CR, there was \$651,116 returned for contingency savings, representing a 6.43% GMP savings.

### **Observations:**

During our review of the final Applications for Payment for this project submitted by DEB, we found that DEB's contingency records did not accurately reflect the correct amounts for change orders funded from contingency. Further, DEB overbilled the District by \$11,872 which the District paid. The overpayment was refunded to the District in March 2009.

### ***Recommendation 3.2:***

*AFC suggests that the District assign a staff member to the specific task of reconciling all final construction invoices to ensure the contractor appropriately reflects contingency usage and that final amounts due are properly calculated prior to releasing final payment.*

### Project 2:

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	Base Construction	Owner Contingency	Contractor Contingency	Final Contract
<b>CAJON PARK - MOD</b>				
Original Amounts	\$ 6,190,955	321,186	232,756	\$ 6,744,897
Contingency Percentage		5.19%	3.76%	
Adjustments to GC @ 67%			15,354	
Change Orders Issued		(321,186)	(47,708)	
CO Percentage		-100.00%	-20.50%	
Remaining Balance		0	200,402	0
<i>(Contractor Portion \$114,641 returned)</i>				
Contingency Split to Owner @ 67%			200,402	(200,402)
Final Contract Amount				\$ 6,544,495
Contingency Savings				\$ 200,402
<b>Savings Percentage</b>				<b>2.97%</b>

For the Cajon Park Modernization project, the District depleted all of their contingency funds and further used some of their share of shared contingency savings to fund additional change orders. However, the District's final share of DEB's contingency resulted in a GMP credit of \$200,402, or 2.97%. Many of the changes were attributable to unforeseen conditions and District scope enhancements.

### Project 3:

	Base Construction	Owner Contingency	Contractor Contingency	Final Contract
<b>RIO SECO MOD</b>				
Original Amounts	\$ 7,863,492	405,645	249,408	\$ 8,518,545
Contingency Percentage		5.16%	3.17%	
Change Orders Issued		(193,368)	139,102	
CO Percentage		-47.67%	55.77%	
Remaining Balance		212,277	388,510	(212,277)
Contingency Split to Owner @ 67%			260,302	(260,302)
Subtotal Final Contract Amount				\$ 8,045,966
CO 1 - Seal/Stripe Front Parking Lot COR 21			***	\$ 6,755
Final Contract Amount				\$ 8,052,721
Contingency Savings				\$ 465,824
<b>Savings Percentage</b>				<b>5.47%</b>

\*\*\* COR 21 was to be handled as a "stand alone" activity and was issued as Owner CO 1.

For the Rio Seco Modernization, \$465,824 was returned from Owner and Contractor contingencies, resulting in a 5.47% GMP savings.

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## Project 4:

<i>SYCAMORE CANYON MOD</i>	Base Construction	Owner Contingency	Contractor Contingency	Final Contract
Original Amounts	\$ 5,578,687	287,781	176,941	\$ 6,043,409
<i>Contingency Percentage</i>		5.16%	3.17%	
Change Orders Issued		(209,897)	17,936	
<i>CO Percentage</i>		-72.94%	10.14%	
Remaining Balance		77,884	194,877	(77,884)
Contingency Split to Owner @ 67%			130,568	(130,568)
Final Contract Amount				\$ 5,834,957
Contingency Savings				\$ 208,452
<b>Savings Percentage</b>				<b>3.45%</b>

For the Sycamore Canyon Modernization, we found that \$208,452 was returned from contingencies, resulting in a 3.45% GMP savings.

## Project 5:

<i>CARLTON OAKS MOD</i>	Base Construction	Owner Contingency	Contractor Contingency	Final Contract
Original Amounts	\$ 7,885,962	406,804	250,121	\$ 8,542,887
<i>Contingency Percentage</i>		5.16%	3.17%	
Change Orders Issued		(228,193)	180,071	
<i>CO Percentage</i>		-56.09%	71.99%	
Remaining Balance		178,611	430,192	(178,611)
Contingency Split to Owner @ 67%			288,228	(288,228)
Subtotal Final Contract Amount				\$ 8,076,048
CO 1 Unforseen Water Damage COR10R			***	\$ 11,844
CO 2 Reconnect Sewer/Gas COR31R2			*****	\$ 7,000
Final Contract Amount				\$ 8,094,892
Contingency Savings				\$ 447,995
<b>Savings Percentage</b>				<b>5.24%</b>

\*\*\* COR 10R was to be handled as a separate adjustment to the GMP and was issued as Owner CO 1.

\*\*\* COR 31R2 was to be handled as a separate adjustment to the GMP and was issued as Owner CO 2

The Carlton Oaks Modernization project reflected a 5.24% GMP savings, or \$447,995 returned in unused contingencies.

In summary, while the District set aside \$1,903,907 as their contingency, the contractor returned \$1,973,789 of that sum to the District which included \$69,882 of savings from the contractor's shared contingency of \$1,206,623.

## **E. Summary Reports at Close-Out:**

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We delayed the completion of our report to be able to prepare a summary report of expenditures by project at each site when the projects were completed. The District provided a detailed spreadsheet that contained multiple files. This document rolled up individual projects costs to final expenditures for the program to date. We had difficulty in reconciling the individual school site accounting data to the overall spending reports; however we recognized that this effort required an enormous effort by the District and data was accounted for within a reasonable variance. We, therefore, prepared a program level analysis that shows architectural and planning costs, testing & inspection, and furniture/equipment costs as a percentage of construction. This report summarizes expenditures as of 10/15/09. Following is a table that reflects percentages of construction for selected budgeted line items:

CATEGORY	COST	% of CONSTRUCTION
Architect/Engineering Fees	\$8,995,811	13.50%
DSA Plan Check Fees	390,379	0.59%
CDE Plan Check Fees	40,973	0.06%
Preliminary Tests	529,600	0.79%
Other Planning Costs	<u>1,882,611</u>	<u>2.82%</u>
<b>Total Planning Costs:</b>	<b>\$11,839,374</b>	<b>17.76%</b>
New Additions	\$25,751,708	
Modernization/Jt Use Lib Tech	37,666,913	
Sitework items	693,006	
Pre-Con CM Fees	127,941	
Demolition	55,551	
Field Improvements	446,098	
Quick Starts	1,411,470	
Utility Fees	<u>500,653</u>	
<b>Total Construction Costs</b>	<b>\$66,653,340</b>	
Construction Testing	\$549,496	0.82%
Construction Inspection	<u>756,318</u>	<u>1.13%</u>
<b>Total Testing &amp; Inspection</b>	<b>\$1,305,814</b>	<b>1.96%</b>
<b>Furniture &amp; Equipment Costs:</b>	<b>\$533,434</b>	<b>0.80%</b>
<b>TOTAL PROGRAM TO DATE:</b>	<b>\$80,331,962</b>	

As the table indicates, project expenditures thus far have exceeded \$80.3 Million. There is approximately \$49.3 Million of expenditures left to complete the program. Architectural/engineering fees have been approximately 13.5% of construction costs to date. This is on the higher end of the scale we would expect for an overall program cost. Testing & inspection costs have been less than 2.0% which is normal for this type of work as aggregated in the table.

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When analyzing program costs we often look at "hard" construction as a percentage of overall costs. In this case, thus far, \$66,653,340 has been spent on hard construction and the balance on "soft" costs. The ratio of hard costs to soft costs is 83%/17%. Most districts we have reviewed have a ratio of 80%/20% or greater. This indicates that planning and other soft costs are more than reasonable.

Overall, reports of this nature are valuable tools for managing projects and as a "post performance" summary of program expenditures. Often these reports can be generated by either the Account-Ability or Primavera Expedition software commonly used by Program Management firms. Since Santee has not developed the tools to generate these reports and has not been able to separate the program costs by project we make the following recommendation:

***Recommendation 3.3:***

*AFC recommends that the District develop bond spending accounting reports that shows low level individual project reporting and post performance models that "roll up" to program reporting.*

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## **SECTION 4: CHANGE ORDERS**

As part of our review AFC selected and categorized the change orders (CO) processed for five (5) of the six (6) completed projects executed during 2008. We had previously recommended that the District establish a streamlined level of authority for change order approvals and to track change orders according to a purpose or "reason" code. We were particularly interested if this recommendation had been implemented.

Typically, change orders associated with construction are a result of the following conditions:

- **Unforeseen site or other conditions**
- **Scope changes authorized by the Owner**
- **Unavailable materials or changes in specifications**
- **Errors and Omissions in the documents prepared by the Architect**
- **Changes caused by on-site field review by governing agencies, typically code interpretations by DSA**

Normally we find that change order rates are between 3-10% of the initial construction cost. The average CO rate for new construction is generally 5% and for renovation work, a rate of no more than 10%. Renovation change order rates are usually higher because of project complexities, the incompleteness of as-built documents, and unknown conditions which may be present at the site. We believe that change order rates of 3% or less are admirable, thus we were interested in observing how the initial five projects had performed.

Change order rates are also typically at the higher end of the range with the traditional design-bid-build methodology, lower for a trade bid contract methodology (CM Multi-Prime), and technically non-existent for a design-build contract. Because the Santee School District chose to utilize a Lease Leaseback contract methodology, where the final bid price becomes a Guaranteed Maximum Price (GMP), we would expect the change order rate to be in the middle or lower end of the range. These ranges do not include any added scope of work that the Owner may elect to exercise to enhance the overall quality of the final product.

Santee School District chose the Lease Leaseback methodology and had provisions that included a Contractor's contingency of approximately 3.5% and an Owner's contingency of 5.0%. The Contractor's contingency would be used to fund bidding discrepancies, changes recommended by the contractor to enhance the project at a savings to the District, and other missed items. The remaining balance of this contingency at project completion would be shared between the District and Contractor with the District receiving 67.0% and the Contractor 33.0%. The Owner's contingency would be used to fund unforeseen conditions, errors and omissions in design, scope changes, and code interpretations. All change orders and use of contingencies were to be approved and authorized by the District.

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There are several issues associated with change orders that we reviewed. Following are our observations and recommendations as they relate to the projects reviewed and the process in place at the Santee School District relating to change orders.

## **A. Signature Authority & Authority to Approve Change Orders:**

With most school districts, the Board of Education is the final authority which is authorized to approve changes to project scope and budget. This normally occurs at a formal public meeting. Since board meetings are infrequent, we often recommend that the board delegate some day-to-day authority levels to administrative staff with various "levels of authority" given to each with a tiered approval level. This action streamlines the approval process, prevents project delays, and minimizes cost increases caused by time delays.

Since the District adopted such a streamlined approach, we expected to find change order documents indicating this tiered level of approval limits and the appropriate signatures attached to the change orders.

At their March 4, 2008 meeting, the Board of Education adopted Resolution No. 0708-20 delegating the approval limits for change orders. The resolution authorized the Director of Facilities Modernization and the Director of Maintenance and Operations to approve changes costing less than \$25,000, the Assistant Superintendent of Business Services to implement changes costing up to \$50,000, and the Superintendent to implement changes costing up to \$75,000. All other change order approvals would require the Board of Education approval.

We sampled significant change orders for each project to determine that the tiered level of authority approval limits had been followed. Our sampling also included verification that all other approvals were obtained on change orders, including the architect, District inspector, and contractor. For each project, we addressed signatory approval levels separate from required project team signatures. Following are the results of our sample of 510 changes:

**CAJON PARK 20 CR ADDITION - Approximately 71 Owner Change Orders**

CO #	CO AMT.	APPROVED BY:	APPROVAL NEEDED:	CO DATE
OCO #70R	\$ (651,116)	Asst. Supt. Business Serv.	Board of Education	02/24/09
OCO # 3	<i>NO ARCHITECT SIGNATURE</i>			10/01/08

**CAJON PARK MODERNIZATION - Approximately 112 Owner Change Orders**

CO #	CO AMT.	APPROVED BY:	APPROVAL NEEDED:	CO DATE
OCO # 16R	\$ 33,198	Dir. Facilities	Asst. Supt. Business Serv.	07/31/08
OCO # 51	\$ 29,796	Dir. Facilities	Asst. Supt. Business Serv.	10/16/08
OCO # 85	\$ 29,406	Dir. Facilities	Asst. Supt. Business Serv.	03/20/09
OCO # 112	\$ (200,402)	Dir. Facilities	Board of Education	04/27/09
OCO # 35	<i>NO ARCHITECT SIGNATURE</i>			11/09/08
OCO # 40	<i>NO ARCHITECT SIGNATURE</i>			09/15/08
OCO # 43	<i>NO ARCHITECT SIGNATURE</i>			09/25/08
OCO # 107	<i>NO ARCHITECT SIGNATURE</i>			04/29/09

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### SYCAMORE CANYON - Approximately 110 Owner Change Orders

OCO # 22	NO ARCHITECT SIGNATURE		09/17/08
OCO # 24	NO ARCHITECT SIGNATURE		09/15/08
OCO # 29	NO ARCHITECT SIGNATURE		09/17/08
OCO # 31	NO ARCHITECT SIGNATURE		09/15/08
OCO # 37	NO ARCHITECT SIGNATURE		09/19/08
OCO # 42	NO ARCHITECT SIGNATURE		09/26/08
OCO # 43	NO ARCHITECT SIGNATURE		09/26/08
OCO # 45	NO ARCHITECT SIGNATURE		10/08/08
OCO # 87	NO ARCHITECT SIGNATURE - NO IOR SIGNATURE		11/20/08
OCO # 102	NO ARCHITECT SIGNATURE		01/05/09
OCO # 103	NO ARCHITECT SIGNATURE		01/05/09
OCO # 105	NO ARCHITECT SIGNATURE		01/23/09
OCO # 110	NO ARCHITECT SIGNATURE - NO IOR SIGNATURE		01/21/09

### RIO SECO - Approximately 73 Owner Change Orders

CO #	CO AMT.	APPROVED BY:	APPROVAL NEEDED:	CO DATE
OCO #73	(\$472,579)	Dir. Facilities	Board of Education	05/18/09
OCO #12	(\$115,728)	Dir. Facilities	Board of Education	09/04/08
OCO # 67	\$ 28,957	Dir. Facilities	Asst. Supt. Business Serv.	03/19/08
OCO # 9	NO ARCHITECT SIGNATURE - DSA Approval Attached			09/12/08
OCO # 15	NO ARCHITECT SIGNATURE - DSA Approval Attached			09/15/08
OCO # 21	NO ARCHITECT SIGNATURE - DSA Approval Attached			09/15/08
OCO # 35	NO ARCHITECT SIGNATURE - DSA Approval Attached			09/16/08
OCO # 57	NO ARCHITECT SIGNATURE - DSA Approval Attached			02/01/09
OCO # 66	NO ARCHITECT SIGNATURE - NO IOR SIGNATURE			03/19/08
OCO # 67	NO ARCHITECT SIGNATURE - NO IOR SIGNATURE			03/19/08

### CARLTON OAKS - Approximately 144 Owner Change Orders

CO #	CO AMT.	APPROVED BY:	APPROVAL NEEDED:	CO DATE
OCO # 25	\$113,418	Dir. Facilities	Board of Education	09/22/08
OCO # 147 (CO3)	(\$466,839)	No District Approval	Board of Education	05/19/09
OCO # 4	NO ARCHITECT SIGNATURE			09/15/08
OCO # 9	NO ARCHITECT SIGNATURE			02/05/09
OCO # 29R	NO ARCHITECT SIGNATURE			12/10/08
OCO # 61	NO ARCHITECT SIGNATURE			12/22/08
OCO # 85	NO ARCHITECT SIGNATURE			10/13/08
OCO # 142	NO ARCHITECT SIGNATURE			05/05/09

### Observations:

As the charts indicate, in several cases the Architect had not signed the change orders. However, several of these change orders were processed during the time when the Director of Facilities Modernization acted as the Architect of Record during the transition between SWAP and Trippito. In that case, the Director should have signed as the Architect of Record and another delegate designated by the District, presumably the Assistant Superintendent, to

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sign as the Owner. While a technicality, it does make clear that there should be multiple parties beyond the Contractor reviewing change orders.

In ten (10) instances we found that change orders did not include the appropriate signatory approval levels as delegated by the Board. In general, we found that contingency close-out change orders did not provide for signature by the Architect or the Inspector of Record and technically did not adhere to the change order delegation of authority limits as approved by the Board. While the Board ultimately formally accepted the credits due on those change orders, there should be some record signature on file for appropriate contract close-out.

We also found that change order forms utilized to process change orders during 2009 carried over 2008 dates instead of reflecting the appropriate 2009 date. These are minor notations that warrant correction in the future.

AFC is recommending that all change order documents for each project on file be reviewed for appropriate signatures and updated prior to the project close out.

#### ***Recommendation 4.1:***

*AFC recommends that, in the future, appropriate signatures are obtained on all change order documents and that the delegation of authority is followed.*

We often find that because of increasing construction costs, a Board may choose to increase the Delegation of Authority to eliminate this issue. We leave that decision up to this Board.

#### **B. Time to Process and Approve Change Orders:**

The process for making changes to a project varies with each project team. Normally a request for a change is the result of the contractor or sub-contractor requesting clarification of an element of the work in the form of a Request for Information (RFI). The RFI is sent to the Architect of Record who responds to the RFI. Either there is a cost associated with the inquiry or there is no cost impact as a result of the architect's response. If the response to the RFI results in a cost change, the Contractor prepares an estimate and makes a Change Order Request (COR). The Change Order Request is reviewed by the Architect and the Owner. The resulting change is approved, based on the levels of authority and then incorporated in the work. Actual construction work on the change order should not commence until all the parties have agreed to the price and all the parties have signed the change order document (Contractor, Architect, Inspector, and Owner).

We often find that some construction work proceeds without the change order being executed or approved. We also find that because the process of approving change orders is time consuming, that the actual time it takes to process change orders is critical to the overall construction process. In cases where work must proceed immediately, we normally recommend that owners issue Field Orders to do the work with an agreed upon lump sum as

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an upset cost. This field order work can then be incorporated as a change order at a later date. In most cases we believe that change order processing time should be between 15-30 days, and certainly no more than 45 days after the issue arises. As part of good risk management, the timely processing of change orders can prevent future contractor claims and therefore we look to see change order processing time. The longer a change order remains outstanding, the more likely it is to become a claim.

## Observations:

We sampled Santee change orders for each of the five (5) projects to address whether a timely approval process had been followed. From our sample it appeared that no work began prior to change order execution. AFC randomly selected 15 to 20 change orders for each project to measure the days for approval time. The following charts summarize our findings for each project:

CAJON PARK 20 CR				
COR #	COR DATE	PCO #	PCO DATE	Days
3	10/02/08	3	04/16/08	169.00
10	05/22/08	6	04/16/08	36.00
18	08/07/08	38	08/04/08	3.00
20	08/14/08	14	05/01/08	105.00
23	09/11/08	47	08/19/08	23.00
24	10/23/08	57	09/09/08	44.00
26	10/02/08	62	09/30/08	2.00
29	10/09/08	68	10/06/08	3.00
34	10/23/08	62R	10/14/08	<u>9.00</u>
<b>Average Days in Process</b>				<b>43.78</b>
<b>Median Days in Process</b>				<b>23.00</b>

CAJON PARK MOD				
COR #	COR DATE	PCO #	PCO DATE	Days
16R	07/30/08	6R	06/28/08	32.00
35	11/19/08	83	08/27/08	84.00
42	09/25/08	26	07/11/08	76.00
48	10/02/08	27	07/14/08	80.00
49	10/16/08	98	09/05/08	41.00
50	10/30/08	85	08/27/08	64.00
51	10/16/08	82	08/27/08	50.00
54	10/16/08	113	10/14/08	2.00
71	01/08/09	121R	01/06/09	2.00
85	03/19/09	147	01/13/09	<u>65.00</u>
<b>Average Days in Process</b>				<b>49.60</b>
<b>Median Days in Process</b>				<b>57.00</b>

RIO SECO				
COR #	COR DATE	PCO #	PCO DATE	Days
1	09/06/08	34	08/11/08	26.00
5	09/02/08	28	08/07/08	26.00
9	09/12/08	17	08/04/08	39.00
15	09/15/08	1	07/10/08	67.00
21	09/15/08	42	08/20/08	26.00
40	10/07/08	74	10/07/08	0.00
70	04/09/09	119	04/01/09	8.00
71	04/09/09	123	04/09/09	0.00
72	04/09/09	108	02/10/09	<u>58.00</u>
<b>Average Days in Process</b>				<b>27.78</b>
<b>Median Days in Process</b>				<b>26.00</b>

SYCAMORE CANYON MOD				
COR #	COR DATE	PCO #	PCO DATE	Days
1	09/11/08	1	06/18/08	85.00
14	09/11/08	35	08/06/08	36.00
22	09/15/08	56	08/29/08	17.00
26	09/15/08	63	08/29/08	17.00
29	09/15/08	75	09/10/08	5.00
40	10/29/08	104	09/19/08	40.00
42	09/26/08	8	07/03/08	85.00
45	09/26/08	53	08/28/08	29.00
48	09/26/08	89	09/17/08	9.00
66	10/30/08	55	08/29/08	<u>62.00</u>
<b>Average Days in Process</b>				<b>38.50</b>
<b>Median Days in Process</b>				<b>32.50</b>

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CARLTON OAKS				
COR #	COR DATE	PCO #	PCO DATE	Days
4	09/15/08	4	06/21/08	86.00
12	09/22/08	12	07/11/08	73.00
14	09/22/08	14	07/11/08	73.00
17	09/22/08	17	07/17/08	67.00
25	09/22/08	25	07/14/08	70.00
29R	12/10/08	29	09/29/08	72.00
61	12/22/08	61	08/22/08	122.00
65	05/05/09	65	08/26/08	252.00
85	10/13/08	85	10/01/08	12.00
90	01/22/09	90	10/30/08	84.00
118	01/22/09	118	12/19/08	34.00
130	03/19/09	130	12/08/08	101.00
142	05/05/09	142	03/03/09	63.00
144	03/19/09	144	03/05/09	<u>14.00</u>
<b>Average Days in Process</b>				<b>74.87</b>
<b>Median Days in Process</b>				<b>72.50</b>

As the above tables indicate, the median time it took to process change orders varied between 23 and 73 days. For three of the five projects analyzed, the number of days was within the 30-45 days we recommend to reduce risk.

***Recommendation 4.2:***

*AFC recommends that the District diligently strive to keep the time from receipt of a Change Order Request (COR) to the processing of a final Change Order to within 30-45 days to reduce risk. It should be also noted that the District urge their contractor's to submit proposed change order requests on a timely basis as some of these delays were due to an untimely contractor submittal processes.*

**C. Documentation, Estimating & Contractor Mark-up Allowances:**

Adequately documenting change orders is an area that can be problematic. Documentation should include an explanation of what additional work is necessary and why. Often the change order will state what the work is, but fails to indicate why the work was necessary, or how the change improved the quality of the final product. We look to see that the documentation is adequate and justifies the change.

Estimating the cost of the change is another area that causes problems. Often contract language states some basis for estimating change order costs. Cost estimating guidelines, such as those published by R.S. Means is often the standard used. If no standard exists, then the Owner is at the mercy of the contractor and sub-contractor's estimate, or needs to prepare its own estimate, to validate the cost of the work. Additionally, the District's Architect of Record should be held accountable to review change order pricing. Differences can lead to protracted negotiations or potential claims. We look to see that the cost of the work is fair and reasonable.

Allowable mark-up for contractor overhead and profit is usually stated within contract documents. Typical mark-up is 15% for all sub-contractors and between 5-10% for general

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contractors. We occasionally find that change order estimates are inflated with incidental charges such as engineering, sundries, and other costs to drive up the price and mark-up allowances. We look to see that change orders contain reasonable mark-ups and costs.

## **Observations:**

From the sampled change orders we evaluated, we found no significant issues with sub-contractor or contractor mark-ups. While there was no cost standard used, we found DEB's estimates fair and reasonable. Each change order documented what work was done and why the work was necessary. As is the case with most change orders, the sample lacked some degree of specificity as to why the work was necessary or how it improved the quality of the final product. It would be prudent to consider this element on future change orders.

## **D. Tracking Reason Codes – Errors & Omissions:**

We typically recommend that Owners codify and track the purpose, or reason, for each change order. This can assist in quantifying CO costs associated with Owner initiated scope changes, unforeseen site conditions that may be avoided on future projects, the cost of agency initiated changes as a result of code interpretations, and track errors and omissions (E/O) on the part of the design professional. If we find numerous change orders attributable to E/O caused by the architect's drawings, we would be concerned with the quality of the design documents.

The construction industry suggests that the "standard of care" for change orders attributable to E/O should be no more than 3% of the construction cost. It is purely a judgment call made by the Owner and liability only attaches when the Architect acts below the standard of applicable care. The standard can be described as part of the contract documents and is at the discretion of the Owner. In order to determine if the standard of care has been compromised, we calculate 100% of the error related change orders and only 20% of the omission change orders. If contractual working drawings omit design details, it is presumed that related costs were never included in the original construction contract to cover these omissions. Further, it is industry standards that suggest that change orders inherently are 20% higher than if the work was originally included in the construction contract as bid work. We further recommend that the Owner, or his representative, codify all change order reason codes, rather than rely on contractor codification.

Rather than adopt the standard reason codes we normally find in the construction industry, the District adopted the following reason codes:

- ***Unforeseen conditions***
- ***District Requested Changes (Scope Changes)***
- ***DSA Modifications***
- ***Errors and Omissions***
- ***Scope Bust***
- ***Value Engineering***

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The following tables show reason codes assigned to change orders for the five (5) projects:

Description	CONTRACTOR ALLOCATION			DISTRICT ALLOCATION		
	Amounts	As % of Change Orders	As % of Contract	Amounts	As % of Change Orders	As % of Change Orders
<b>CAJON PARK - 20 CR</b>						
Original Contract Amount	\$ 10,132,317			<b>DISTRICT DID NOT CODE</b>		
Owner Contingency	(482,491)					
Contractor Contingency	(297,397)					
Base Contract	\$ 9,352,429					
(a) Unforeseen Conditions	13,997	28.74%	0.15%			
(b) District Requested	43,774	89.89%	0.47%			
(c) DSA Modifications	5,552	11.40%	0.06%			
(d) Errors & Omission	61,478	126.24%	0.66%			
(e) Scope Bust	-	0.00%	0.00%			
(ve) Value Engineering	4,107	8.43%	0.04%			
<b>Not Coded</b>	(80,210)	-164.71%	-0.86%			
<b>Total Changes</b>	\$ 48,698	<b>100.00%</b>	<b>0.52%</b>			

Description	CONTRACTOR ALLOCATION			DISTRICT ALLOCATION		
	Amounts	As % of Change Orders	As % of Contract	Amounts	As % of Change Orders	As % of Change Orders
<b>CAJON PARK MOD</b>						
Original Contract Amount	\$ 6,744,897					
Owner Contingency	(321,186)					
Contractor Contingency	(232,756)					
Base Contract	\$ 6,190,955					
(a) Unforeseen Conditions	147,845	46.03%	2.39%	148,659	46.28%	2.40%
(b) District Requested	135,741	42.26%	2.19%	108,072	33.65%	1.75%
(c) DSA Modifications	-	0.00%	0.00%		0.00%	0.00%
(d) Errors & Omission	37,547	11.69%	0.61%	64,180	19.98%	1.04%
(e) Scope Bust	-	0.00%	0.00%		0.00%	0.00%
(ve) Value Engineering	53	0.02%	0.00%	53	0.02%	0.00%
<b>Not Coded</b>	-	0.00%	0.00%	222	0.07%	0.00%
<b>Total Changes</b>	\$ 321,186	<b>100.00%</b>	<b>5.19%</b>	\$ 321,186	<b>100.00%</b>	<b>5.19%</b>

Description	CONTRACTOR ALLOCATION			DISTRICT ALLOCATION		
	Amounts	As % of Change Orders	As % of Contract	Amounts	As % of Change Orders	As % of Change Orders
<b>RIO SECO MOD</b>						
Original Contract Amount	\$ 8,518,545					
Owner Contingency	(405,645)					
Contractor Contingency	(249,408)					
Base Contract	\$ 7,863,492					
(a) Unforeseen Conditions	47,384	24.50%	0.60%	58,324	30.16%	0.74%
(b) District Requested	69,590	35.99%	0.88%	53,681	27.76%	0.68%
(c) DSA Modifications	13,600	7.03%	0.17%		0.00%	0.00%
(d) Errors & Omission	43,526	22.51%	0.55%	6,310	3.26%	0.08%
(e) Scope Bust	20,091	10.39%	0.26%		0.00%	0.00%
(ve) Value Engineering	-	0.00%	0.00%		0.00%	0.00%
<b>Not Coded</b>	(823)	-0.43%	-0.01%	75,053	38.81%	0.95%
<b>Total Changes</b>	\$ 193,368	<b>100.00%</b>	<b>2.46%</b>	\$ 193,368	<b>100.00%</b>	<b>2.46%</b>

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<b>SYCAMORE CANYON MOD</b>	CONTRACTOR ALLOCATION			DISTRICT ALLOCATION		
	Amounts	As % of Change Orders	As % of Contract	Amounts	As % of Change Orders	As % of Change Orders
Description						
Original Contract Amount	\$ 6,043,409			<b>DISTRICT DID NOT CODE ALL CHANGE ORDERS</b>		
Owner Contingency	(287,781)					
Contractor Contingency	<u>(176,941)</u>					
Base Contract	\$ 5,578,687					
(a) Unforeseen Conditions	74,792	35.63%	1.34%			
(b) District Requested	67,207	32.02%	1.20%			
(c) DSA Modifications	-	0.00%	0.00%			
(d) Errors & Omission	67,898	32.35%	1.22%			
(e) Scope Bust	-	0.00%	0.00%			
(ve) Value Engineering	-	<u>0.00%</u>	<u>0.00%</u>			
<b>Total Changes</b>	<b>\$ 209,897</b>	<b>100.00%</b>	<b>3.76%</b>			

<b>CARLTON OAKS MOD</b>	CONTRACTOR ALLOCATION			DISTRICT ALLOCATION		
	Amounts	As % of Change Orders	As % of Contract	Amounts	As % of Change Orders	As % of Change Orders
Description						
Original Contract Amount	\$ 8,542,887			<b>DISTRICT DID NOT CODE</b>		
Owner Contingency	(406,804)					
Contractor Contingency	<u>(250,121)</u>					
Base Contract	\$ 7,885,962					
(a) Unforeseen Conditions	42,854	18.78%	0.54%			
(b) District Requested	86,129	37.74%	1.09%			
(c) DSA Modifications	15,729	6.89%	0.20%			
(d) Errors & Omission	77,757	34.08%	0.99%			
(e) Scope Bust	5,724	2.51%	0.07%			
(ve) Value Engineering	-	<u>0.00%</u>	<u>0.00%</u>			
<b>Total Changes</b>	<b>\$ 228,193</b>	<b>100.00%</b>	<b>2.89%</b>			

### Observations:

As the tables indicate, for three of the five projects the reason codes were not completely classified by the District or its on-site representative, the Inspector of Record. We were told that the Contractor and his "team" (we believe this to be the Contractor and/or Architect) did keep a classification coding for all change orders for each project. Classification codes kept by DEB and the District resulted in differing categorizations, hence the differing values in the charts. In fact, as we conducted our review, many of the District allocations were being reviewed and updated. It is this disparity that results in our recommending that the Owner, in this case the District, be charged with keeping the record classification for all changes.

Since the Owner is the entity making the judgment call as to which changes are the result of errors and omissions and the ultimate keeper of the records, it is imperative that they be the judge of the category where all changes be classified.

# SANTEE SCHOOL DISTRICT PROP R PERFORMANCE REVIEW 2008/2009 FISCAL YEAR

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## ***Recommendation 4.3***

*The District should be the ONLY entity classifying the changes by reason code.*

### **E. Conclusions:**

For each of the five (5) projects reviewed, the above tables reflect change orders as a percentage of final construction cost. Actual change order rates were found to be between 0.52% and 5.19% of construction cost. This range reflects minimal changes during the course of construction and indicates a group of projects well within industry standards, especially since most were renovation/modification projects.

Change orders attributable to errors and omissions fell between 0.55% and 1.22% of construction values. As previously stated, the error and omission rate should be less than 3.0% on each project. This range shows that there were excellent design documents and few errors and omissions. Again this demonstrates excellent project results.

Compared to other districts we have reviewed, this District, Contractor, and Architect have done an outstanding job of managing these projects and the Lease Leaseback contracting methodology has proven to be an excellent choice for the future.