

**FREDERICK COUNTY
INTERAGENCY INTERNAL AUDIT AUTHORITY**

**FREDERICK COMMUNITY COLLEGE
CLASSROOM STUDENT CENTER PROJECT**

**REPORT #10-03
DECEMBER 16, 2009**





TABLE OF CONTENTS

Executive Summary ii

I. Introduction1

II. Background1

III. Objective, Scope and Methodology.....2

IV. Audit Results

Follow-Up to Interim Report.....3

Contract Terms for Change Orders Should be Followed.....5

Unallowable Bond Costs Were Paid5

Overhead and Profit Was Calculated Incorrectly.....6

Change Orders Were Approved Without the Required Support.....6

A Written Error & Omission Policy Needs to Be Developed7

V. Summary of Response8

VI. Auditor Comments8

Attachment: FCC’s Response



FCC Classroom Student Center Project

Executive Summary

Our audit found that FCC's construction management is effective in ensuring that the Classroom Student Center Project, their largest capital improvement project to date with a budget of \$27.7 million¹, is within budget. Project costs as of November 13, 2009 were \$20.4 million.

Our audit also found that FCC strengthened their monitoring of the Contractor as recommended in our September 16, 2009 interim report. The Architect and/or his consultants are now on-site several times a week, rather than once every other week. In addition, FCC's Executive Director of Facilities Planning and/or his Assistant now visit the site daily and document their visits in observation reports. These reports detail such things as the number of workers on-site by (sub) contractor, work in progress, and any concerns or issues.

Although FCC has strengthened its monitoring of the Project as recommended, the Substantial Completion date has slipped more than 3 weeks from October 27, 2009 to November 20, 2009. While the current progress schedule indicates the Project should be completed in time for the Spring semester, currently there is only a 3½ week period between Substantial and Final Completion. During this time, among other things, final inspections such as health and fire must be completed before a Use and Occupancy Permit will be issued to allow for the full use of the building for its intended purpose. Classes are scheduled to start in the new Classroom Student Center building on January 23, 2010.

As recommended in our interim report to FCC, the Vice President for Administration directed the Assistant Vice President of Learning Operations to develop a written contingency plan if the Classroom Student Center does not open on time. The written plan listed various options such as re-assigning classes scheduled in the Classroom Student Center to existing alternative space in other classrooms on campus. However, the plan did not identify specific space needs and if various options are feasible based on available alternative space at specific times. We recommend that FCC continue to monitor the Project closely and develop a more detailed written contingency plan that describes how the plan will be implemented should the Classroom Student Center's opening be delayed.

Our audit also found that FCC's construction contract terms related to change orders specify how change orders should be produced, reviewed, and approved for the Project. However, we noted many instances where FCC deviated from the terms of their contract.

¹ The State of Maryland and Frederick County have invested approximately \$15 million and \$12.7 million, respectively.

FCC Classroom Student Center Project

- As of October 6, 2009, FCC has incorrectly paid the Contractor \$12,159 because the Contractor includes 1.5% bond on all change orders except credit change orders. The contract states that bond is to be included in the overhead and profit markup.
- FCC overpaid the Contractor \$7,341 for overhead and profit on 12 of 33 change orders tested.
- FCC approved 13 out of 33 change orders without the required support. The total amount of the change orders or portions of the change orders that lacked the required support totaled \$56,626. Additionally, we found that on 3 out of the 33 change orders tested, the Contractor completed the work before it was approved. FCC management stated that the Contractor completed the work at his own risk, subject to subsequent approval for payment. However, FCC did not require the Contractor to submit the proper documentation required by the contract when reviewing and approving these change orders. The 3 change orders totaled \$13,039. While FCC stated that the Architect and his consultants deemed the costs were reasonable for the 16 change orders, the additional support required by the contract would have assisted FCC personnel in making their own determination as to the reasonableness and accuracy of the change order amounts, and determining compliance with contract terms.

We recommend that FCC improve its compliance with its own contract terms related to change orders by obtaining required support and recovering overpayments made to the Contractor related to overhead, profit and bond. We also recommend that FCC strengthen the language in their standard contract documents regarding overhead and profit to lower tier subcontractors. Additionally, FCC should establish written policies and procedures related to architectural errors and/or omissions that result in change orders.

Dr. Carol Eaton, FCC President, responded to our recommendations on December 8, 2009 (See Attachment). She agreed with all recommendations except Recommendations 1 and 3. We summarized her response in Section V and provided our comments in Section VI.



FCC Classroom Student Center Project

I. Introduction

Internal Audit (IA) conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

This report is intended to provide information to management; however, it is also a matter of public record, and with the exception of any applicable disclosure exemptions, distribution should not be limited. Information extracted from this report may also serve as a method to disseminate information to the public as a reporting tool to help citizens assess government operations. Management responsible for the functional area reviews the report, and their formal written responses are incorporated into the final report per IIAA policy and generally accepted government auditing standards.

It is management's responsibility to design and implement an adequate system of internal control, and it is the Internal Audit Division's responsibility to determine if management's system of internal control is functioning properly in relation to the audit objective. It is also management's responsibility to decide if action should be taken in response to any reported audit recommendations, taking into consideration related costs and benefits. Management, therefore, assumes the risk of making the decision not to implement any reported recommendations.

II. Background

Frederick Community College (FCC) is currently experiencing a rapid increase in enrollment. For the Spring 2009 semester, there were 5,754 students enrolled, an increase of 9.4% over the Spring 2008 semester. This increase in enrollment is expected to continue due to the economic climate and the influx of individuals seeking degrees. FCC currently consists of 10 buildings and an off-site Advanced Workforce Training Center also known as the Monroe Center. Together, the main campus and the Monroe Center contain 74 classrooms, including laboratories.

The Classroom Student Center provides additional space to the College as its enrollment needs increase. The building will add 16 classrooms, 6 of which are computer labs; 26 faculty offices; recreational space for students; and numerous study areas. Dining Services and the Bookstore will also move to this building so that they are more centrally located. The Project is the College's largest capital improvement project to date with a budget of \$27.7 million. The State of Maryland and Frederick County have invested approximately \$15 million and \$12.7 million, respectively. Project costs as of November 13, 2009 were \$20.4 million.

The Vice President for Administration oversees the Facilities Planning Department, which manages the College's construction projects. The Facilities Planning Department currently has two employees, the Executive Director and the Assistant Director. The Executive Director is responsible for the timely review and approval of all payment applications and change orders. FCC also hired an Architectural/Engineering (A/E) firm to act as the project manager on this Project. Their duties include, among other things, monitoring the progress and quality of work and protecting FCC against defects and deficiencies of work by the Contractor and its subcontractors. The Architect reports directly to the Executive Director of Facilities Planning on matters regarding this Project. Any concerns that the College has are relayed to the Contractor through the Architect.

Payment applications and change orders go through several layers of review before being approved for payment or denied. First, the Architect reviews each payment application and change request for reasonableness and accuracy. He then forwards them to the Executive Director of Facilities Planning for his review and approval. Once he has approved the payment application or change request, he forwards them to the Vice President for Administration who performs a final review prior to approving payment. Change orders over \$25,000 must be forwarded to the Board of Trustees for approval prior to execution. Additionally, the Board of Trustees subsequently approves all of the documents at the next scheduled Board meeting.

III. Objective, Scope and Methodology

The objective of the audit is to determine that FCC's construction management is effective in ensuring that the Classroom Student Center Project is on time and within budget and is constructed in accordance with laws/regulations, contract terms, and policies and procedures. The scope of the audit included only the construction phase of the Project. It did not include a determination of the reasonableness of change order amounts. In addition, while we interviewed County inspection management and verified that FCC obtained the proper building permit, a final determination as to whether the Project is constructed in accordance with laws/regulations will be made by the City and County inspection agencies.

We interviewed the Executive Director of Facilities Planning, his Assistant Director, the Vice President for Administration, and the Architect to determine the processes and internal controls used during the construction phase of the Classroom Student Center Project to meet the above objective. We also reviewed the contract, project reports and records, and assessed risk based upon preliminary review of the following areas: (1) expenses versus budget, (2) payment applications, (3) change orders, (4) progress schedules, (4) submittals, and (5) field report errors.

We issued an interim report to FCC management on September 16, 2009 because our preliminary testing revealed a matter that required immediate attention. The interim report identified concerns that additional oversight is needed in the final stages of the Classroom Student Center Project to ensure that it is completed on time and that the Contractor is complying with contract specifications. To determine if the recommendations from the interim report were implemented, we reviewed documentation to verify that the Architect had been on-site at least

once a week, the Executive Director of Facilities Planning or his Assistant had been on-site daily, and a written contingency plan had been developed.

We also updated budget/cost data and tested change orders, the only other area that was deemed high risk during the planning phase. To ensure that change orders were for items not covered under the contract, properly approved, and amounts paid were in compliance with the contract, we reviewed change orders that had been approved for the Classroom Student Center Project as of July 31, 2009. We randomly selected a sample of 30² out of 54 change orders from our audit period. The sample was a statistically valid sample size based on a maximum tolerable error rate of 5 percent and a desired reliability of 95 percent.

IV. Audit Results

Our audit found that FCC's construction management is effective in ensuring that the Classroom Student Center Project is within budget and that they strengthened their monitoring of the Contractor as recommended in our interim report. As the Project nears completion, FCC should continue to monitor the Project closely and develop a more detailed written contingency plan that describes how the plan will be implemented should the Classroom Student Center's opening be delayed. FCC should also improve its compliance with its own contract terms related to change orders by obtaining required support and recovering overpayments made to the Contractor related to overhead, profit and bond. FCC should also strengthen the language in their standard contract documents regarding overhead and profit to lower tier subcontractors. Additionally, FCC should establish written policies and procedures related to architectural errors and/or omissions that result in change orders.

FOLLOW-UP TO INTERIM REPORT

On September 16, 2009 Internal Audit issued an interim report to the FCC President noting that FCC needed to strengthen its monitoring over the Classroom Student Center Project Contractor to help ensure the Project is completed on time, the Contractor complies with specifications, and the correction of significant issues or problems are verified. We recommended that:

- FCC enforce the specific terms of their contract with the Architectural firm requiring the Architect to conduct on-site monitoring at least once a week until the Project is complete;
- FCC's Executive Director of Facilities Planning or his Assistant be on-site daily as FCC's representative to manage the Project and to help ensure compliance with contract specifications, proper installation, material quality, contractor oversight, and safety; and
- FCC develop a written contingency plan to accommodate the extra classes if the Classroom Student Center does not open on time.

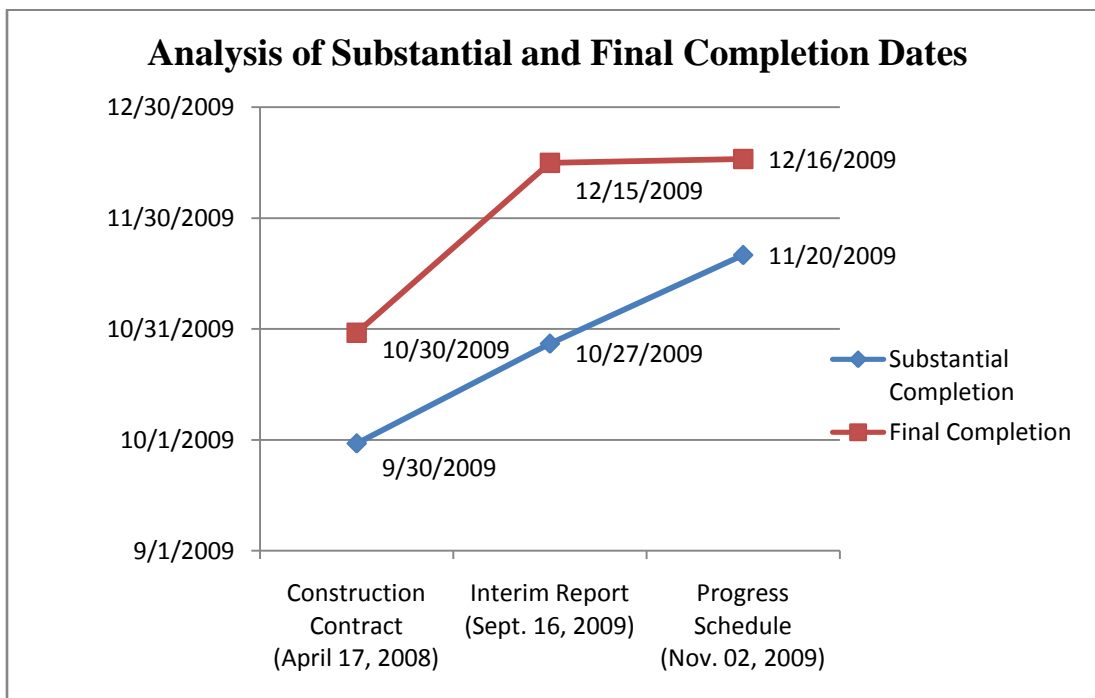
FCC's President agreed with all three of our recommendations.

² There were an additional 3 change orders reviewed in the planning phase. The sample population of 33 change orders totaled \$290,781.

During our audit, we followed-up to ensure that FCC had implemented the recommendations and found that:

- The Architect and/or his consultants are now on-site several times a week as the Project nears completion, and
- FCC’s Executive Director of Facilities Planning and/or his Assistant visit the site daily and document their visits in observation reports that detail such things as the number of workers on-site by (sub)contractor, work in progress, and any concerns or issues.

Although FCC has strengthened its monitoring of the Project as recommended, the Contractor’s Substantial Completion date has slipped more than 3 weeks from October 27, 2009 to November 20, 2009 since we issued our interim report. According to the Vice President for Administration, FCC has not agreed to any changes to the contract dates. However, the following chart shows how the Substantial and Final Completion dates have shifted since the start of construction on the Project. As noted in the interim report, the initial delay in the dates is attributed to a delay in obtaining the building permit at the beginning of the Project.



While the Contractor’s current progress schedule indicates the Project should be completed in time for the Spring semester, currently there is only a 3½ week period between Substantial and Final Completion. During this time all punch list items; owner’s instruction in operation, adjustment, and maintenance of products, equipment, and systems; and final inspections such as health and fire must be completed before a Use and Occupancy Permit will be issued to allow for the full use of the building for its intended purpose. Classes are scheduled to start in the new Classroom Student Center building on January 23, 2010.

As recommended in our interim report to FCC, the Vice President for Administration also directed the Assistant Vice President of Learning Operations to develop a written contingency plan. The written plan listed various options; however, it did not contain any details of how FCC would implement it to accommodate the extra classes if the Classroom Student Center does not open on time. For example, the plan states that FCC's first action would be to re-assign classes scheduled in the Classroom Student Center to existing alternative space in other classrooms on campus at the originally scheduled time. However, there are no details to show the specific space needs and if this option is feasible based on available alternative space.

According to the Vice President for Administration, FCC will not know the exact enrollment for classes in the Classroom Student Center until almost up to the day classes are scheduled to begin. Therefore, they do not believe they can determine their specific space needs to include in a more detailed contingency plan. However, in our opinion, FCC should be able to determine if the Classroom Student Center will open for the Spring semester several weeks before the semester starts. They should also be able to estimate enrollment numbers at that time allowing them to complete a more detailed contingency plan with a better estimate of their specific space needs.

Recommendation 1: We recommend that FCC continue to monitor the Project closely and develop a more detailed written contingency plan that describes how the plan will be implemented should the Classroom Student Center's opening be delayed.

CONTRACT TERMS FOR CHANGE ORDERS SHOULD BE FOLLOWED

FCC's construction contract terms related to change orders specify how change orders should be produced, reviewed, and approved for the Project. However, we noted many instances where FCC deviated from the terms of their contract.

UNALLOWABLE BOND COSTS WERE PAID

The Supplementary Conditions of the construction contract, Item 22. Article 7, paragraph b. (1) state, "The markup computed... shall be considered to cover all overhead costs attributable to field overhead related to processing and supervising the change order work, all home office overhead costs, and any additional bond, insurance, and profit related to the change order." (underscore added)

However, we found that the Contractor incorrectly charged an additional 1.5% of each change order amount for bond on 31 of the 33 change orders tested resulting in overpayments to the Contractor of \$5,421. Further analysis confirmed that FCC overpaid the Contractor a total of \$12,159, including the previous amount, for all change orders issued through October 6, 2009. The 1.5% bond amount was added to all change orders except credit change orders, which credit amounts back to FCC in certain circumstances.

Recommendation 2: We recommend that FCC comply with their contract terms in the future, review remaining change orders on the Project for overpayments of bond amounts, and recover the \$12,159 and any additional unallowable bond costs paid to the Contractor.

OVERHEAD AND PROFIT WAS CALCULATED INCORRECTLY

The Supplementary Conditions, Item 22. Article 7 paragraphs b. (1) and (3) specify the overhead and profit calculations for the general contractor and for subcontractors for self-performed work. The general contractor can take “15% on the first \$25,000 of the change order direct cost of self-performed work...” The subcontractor can take “10% on the first \$25,000 of the change order direct cost of self-performed work...” Additionally, paragraph b. (2) states, “For the Contractor, for Work performed by the Contractors Subcontractor, 5 percent of the amount due the Subcontractor.”

The contract is silent regarding overhead and profit payments to subcontractors who subcontract work out to lower tier subcontractors. However, the contract does state that the higher overhead and profit percentages (15%, 10%, etc.) are for self-performed work only. Therefore, when a subcontractor contracts work out to a lower tier subcontractor, he, in fact, becomes the contractor to that lower tier subcontractor. In these cases, overhead and profit should be calculated using the lower percentage (5%) as stated in paragraph b. (2) of the Supplementary Conditions.

During testing, we found that some subcontractors incorrectly calculated overhead and profit amounts on 12 of the 33 change orders tested. The errors we found were due to mathematical calculation errors and/or subcontractors taking more overhead and profit than allowed by the contract for self-performed work. In addition, on 8 of these 12 change orders, we noted that the subcontractors took more overhead and profit than allowed by the contract for work performed by lower tier subcontractors. FCC reviewed and approved the 12 change orders, overpaying the Contractor a total of \$7,341.

Recommendation 3: We recommend that FCC comply with their contract terms in the future, review remaining change orders for overpayment of overhead and profit, and recover the \$7,341 and any additional unallowable overhead and profit costs paid to the Contractor.

Recommendation 4: We also recommend that FCC strengthen their construction contract language to be more specific regarding overhead and profit to lower tier subcontractors.

CHANGE ORDERS WERE APPROVED WITHOUT THE REQUIRED SUPPORT

The Supplementary Conditions, Item 22. Article 7, paragraph b. states, “The Contractor shall provide an itemized breakdown showing quantities, unit costs, hours and rates of labor, and other costs in such detail as may be required to allow the reasonableness of costs to be established. Similar cost information covering Subcontractors work shall be included as part of the Contractors proposal.” In addition, Item 22. Article 7, paragraph b. (5) states, “In order to facilitate checking of quotations for extras or credits, all proposals, except those so minor that their propriety can be seen by inspection, shall be accompanied by a complete itemization of cost including labor, labor burden, materials, and Subcontracts. Labor and materials shall be itemized in the manner prescribed above. Where major cost items are Subcontracts, they shall be itemized also. In no case will a charge involving over \$500 be approved without such itemization.” (underscore added)

However, we found that FCC approved 13 out of 33 change orders without the required support. The total amount of the change orders or portions of the change orders that lacked the required support totaled \$56,626. Additionally, we found that on 3 out of the 33 change orders tested, the Contractor completed the work before it was approved. FCC management stated that the Contractor completed the work at his own risk, subject to subsequent approval for payment. However, FCC did not require the Contractor to submit the proper documentation required by the contract when reviewing and approving these change orders. The 3 change orders totaled \$13,039.

While FCC did not get the support required by the contract, they did receive assistance from the Architect and his consultants who deemed the costs were reasonable. However, the additional support would have assisted FCC personnel in making their own determination as to the reasonableness and accuracy of the change order amounts, and determining compliance with contract terms.

Recommendation 5: We recommend that FCC require the Contractor to submit the required detailed support for any remaining change orders.

A WRITTEN ERROR & OMISSION POLICY NEEDS TO BE DEVELOPED

A written error and/or omission policy would offer “a systematic approach for investigating, pursuing, and reporting A/E liability for change orders issued to correct design deficiencies identified prior to construction completion and for correcting design deficiencies identified after completion of construction...Recovery of damages should be pursued in all cases where there was an error and/or omission by the A/E resulting in a change order, which caused an increase in costs”³ over an established dollar limit “and/or time for project completion.”³

According to the Vice President for Administration, FCC reviews change orders for errors and/or omissions. However, recovery decisions made regarding the errors and/or omissions are not documented, and no written policy exists to require such a review and documentation. Additionally, FCC does not classify change orders by errors and/or omissions, unforeseen conditions, or owner/user requests. Classifying change orders in this manner would allow FCC to accurately track the amount being spent on each type of change order and the types of change orders that are occurring most frequently, including A/E error and/or omission change orders occurring on FCC projects where cost recovery may be pursued.

Recommendation 6: We recommend that FCC develop a written error and omission policy that includes an established dollar limit, taking into consideration costs for pursuing cost recovery. We also recommend FCC classify change orders according to error and/or omission, unforeseen condition, or owner/user request.

Recommendation 7: We recommend that FCC document the practices they use to handle architectural error and/or omission change orders. We also recommend FCC document decisions

³ Frederick County Division of Public Works, A/E Responsibility Review Board Policy Paragraph 6.B.1 and Paragraph 6. A.1

detailing reasons for whether or not to pursue cost recovery from an Architect/Engineer for errors and/or omissions resulting in a change order.

V. Summary of Response

Dr. Carol Eaton, FCC President, responded to our recommendations on December 8, 2009. She agreed with all of our recommendations with the exception of Recommendations 1 and 3. Regarding Recommendation 1, Dr. Eaton stated that they remain confident that the project will be completed on time and that Spring 2010 classes will be held in the new building. She stated that FCC has already developed a progressive action plan based on prioritized steps to be taken in the unlikely event they would have to deal with a delayed opening, and that to dedicate additional time developing a more detailed written contingency plan is not an effective use of resources during this very busy time.

Regarding Recommendation 3, she stated that they do not agree with the conclusion that we reached. She stated that the contract between FCC and Lobar is silent on the overhead and profit percentages to be applied when a subcontractor to the general contractor utilizes the services of another subcontractor to accomplish the work. Since the contract is silent, it is subject to many different interpretations. However, she stated that FCC will discuss the matter further with the general contractor to determine if there is an acceptable interpretation to all parties.

VI. Auditor Comments

It is management's decision not to implement Recommendation 1 and to accept the associated risk. However, we still believe that it would be prudent to develop a more specific and detailed plan, especially if it becomes apparent that the Classroom Student Center will not open on time.

Regarding Recommendation 3, FCC's response only partially addressed the issue. FCC did not address the fact that, during testing, we found that some subcontractors incorrectly calculated overhead and profit amounts on 12 of the 33 change orders tested; and FCC approved and paid these amounts. The errors we found were due to mathematical calculation errors and/or subcontractors taking more overhead and profit than allowed by the contract for self-performed work. These errors amounted to \$3,962 of the \$7,341 referred to in the finding.

With regard to the issue of overhead and profit payments to subcontractors for work performed by lower tier subcontractors on 8 of these 12 change orders, we stand by our position in the report. The amounts paid for overhead and profit are incorrect because the higher percentages indicated in the contract documents are to be paid only for self-performed work. In accordance with the contract, FCC paid the higher percentages to the subcontractor who performed the work. However, they also paid these higher percentages to the higher level subcontractor(s) who did not perform the work. In addition, FCC paid the General Contractor his overhead and profit percentage on the inflated subcontractors' total amounts billed. These errors amounted to \$3,379 of the \$7,341 referred to in the finding.

The following chart shows an example of how incorrect overhead and profit percentages were charged:

Example of Excessive Overhead and Profit Payment Percentages

Contractor Level	Self-Performed the Work or Subcontracted the Work Out	Percentage Charged	Correct Percentage Per Contract	Difference
General Contractor	Subcontracted work to A	5%	5%	-
Subcontractor A	Self-performed	15%	10%	5%
Subcontractor A	Subcontracted work to B	23%	5%	18%
Subcontractor B	Subcontracted work to lower level	10%	5%	5%

We agree with Dr. Eaton’s plan to discuss the matter further with the General Contractor in order to determine if there is an acceptable interpretation to all parties. However, as stated in Recommendation 3, FCC should review the remaining change orders for overpayment of overhead and profit, and recover the \$7,341 and any additional unallowable overhead and profit costs paid to the Contractor.

Interagency Internal Audit Authority

December 16, 2009

Interagency Internal Audit Authority



December 8, 2009

Mr. Richard Kaplan
Director, Internal Audit Division
8 East Second Street, Suite 100
Frederick, Maryland 21701

RE: Recommendations Concerning Audit of
Frederick Community College's
Classroom Student Center Capital Project

Dear Mr. Kaplan:

As requested, I am providing a written response to the recommendations contained in your draft audit report of November 24, 2009 resulting from the above referenced audit. Your recommendations and our specific responses are provided below:

RECOMMENDATION 1: We recommend that FCC continue to monitor the Project closely and develop a more detailed written contingency plan that describes how the plan will be implemented should the Classroom Student Center's opening be delayed.

RESPONSE:

We continue to remain confident the project will be completed on time and Spring 2010 classes will be held in the new building. We developed a progressive action plan based on prioritized steps to be taken in the unlikely event we would have to deal with a delayed opening. The person responsible for the class scheduling is very experienced in this area and is also very busy with move related activity. We are confident if the need arises he can re-assign classes based on the step by step action plan he produced. In our opinion, to dedicate additional time developing a more detailed written contingency plan is not an effective use of resources during this very busy time.

RECOMMENDATION 2: We recommend that FCC comply with their contract terms in the future, review remaining change orders on the Project for overpayments of bond amounts, and recover the \$12,159 and any additional unallowable bond costs paid to the Contractor.

RESPONSE:

We concur with this recommendation and will eliminate the 1.5% bond amount from all future change orders. We have also advised the Contractor of our expectation of re-payment of the amounts erroneously included in prior change orders. We will either receive reimbursement or deduct the full amount from the outstanding retainage due the contractor.

RECOMMENDATION 3: We recommend that FCC comply with their contract terms in the future, review remaining change orders for overpayment of overhead and profit, and recover the \$7,341 and any additional unallowable overhead and profit costs paid to the Contractor.

RESPONSE:

We do not agree with the conclusion reached by the auditors concerning this recommendation. The contract between FCC and Lobar is silent on the overhead and profit percentages to be applied when a subcontractor to the general contractor utilizes the services of another subcontractor to accomplish the work. Since the contract is silent on this set of circumstances the auditors made the determination the original subcontractor would be treated as the general contractor and their subcontractor would be treated as a first tier subcontractor thus applying the overhead and profit percentages as provided in the contract for that relationship. Based on this assumption, they determined 5% was the appropriate overhead and profit percentage because that is the cap applied to the general contractor on subcontractor performed work. Because the contract is silent on this issue it is subject to many different interpretations. We will discuss this matter further with the general contractor in order to determine if there is an acceptable interpretation to all parties.

RECOMMENDATION 4: We also recommend that FCC strengthen their construction contract language to be more specific regarding overhead and profit to lower tier subcontractors.

RESPONSE:

We concur with this recommendation and will strengthen future contract language in order to avoid similar interpretation issues in the future.

RECOMMENDATION 5: We recommend that FCC require the Contractor to submit the required detailed support for any remaining change orders.

RESPONSE:

From a purely technical perspective we concur with this recommendation and will increase our efforts to ensure compliance with the contract requirements. However, from a practical perspective we may encounter situations where we must act quickly on needed changes in order to avoid delays. With assurances from our architects, engineers and very experienced staff of the reasonableness of the cost, we may have to move forward with change orders that exceed the very low ceiling of \$500. We will also examine this requirement and the related \$500 ceiling for possible adjustment in future contracts.

RECOMMENDATION 6: We recommend that FCC develop a written error and omission policy that includes an established dollar limit, taking into consideration costs for pursuing cost recovery. We also recommend FCC classify change orders according to error and/or omission, unforeseen condition, or owner/user request.

RESPONSE:

We concur with this recommendation and will develop a policy for errors and omissions and will include appropriate direction in the policy to allow for the classification of changes according to error and/or omission, unforeseen condition and owner/user request. Hopefully, this policy can be developed and available for our next large construction project.


RECOMMENDATION 7: We recommend that FCC document the practices they use to handle architectural error and/or omission change orders. We also recommend FCC document decisions detailing reasons for whether or not to pursue cost recovery from an Architect/Engineer for errors and/or omissions resulting in a change order.

RESPONSE:

We will address these recommendations in the policy developed as a result of Recommendation Number 6.

We appreciate your interest in this very critical project for FCC and will be glad to provide any additional information you may need.

Sincerely,

A handwritten signature in black ink that reads "Carol W. Eaton". The signature is written in a cursive style with a large, prominent "C" at the beginning.

Dr. Carol Eaton
President