State Architect: Contracting Practices Need Improvement

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Table of Contents

Summary

Results in Brief

The Division of the State Architect (DSA) within the Department of General Services is partially responsible for the design and construction of state facilities (capital outlay program). Under the capital outlay program, the DSA is responsible for designing a project, selecting architectural and engineering consultants, bidding and awarding construction contracts, supervising and inspecting construction, preparing the project budget, and managing the overall project. To carry out its responsibility, the DSA awards three types of contracts—architectural and engineering contracts, construction contracts, and contracts for retainer services.

Our review focused on whether the DSA complied with the state contracting laws and regulations in awarding its contracts. Additionally, the DSA was responsible for a major construction project that involved the seismic upgrading of the Armory and Ahmanson buildings owned by the California Museum of Science and Industry (CMSI). We reviewed whether the DSA followed the appropriate building codes and consulted with the required advisory boards before making decisions that resulted in the demolition of a major building. Specifically, we noted the following:

- The DSA awarded $1.2 million of new work by simply amending ongoing contracts rather than taking the steps necessary to award this work through a competitive process.

- The DSA did not always prepare independent estimates before it negotiated fees with its consultant contractors.

- It awarded one contract for a project manager without properly advertising for it.

- The DSA did not obtain the required approvals before some consultant contractors performed services for a contract.
- It did not always obtain approvals when it exceeded its sole source and delegated authority limits for some of its contracts.

- Even though the Legislature, in Chapter 757, Statutes of 1992, directed that both the Ahmanson and the Armory buildings be replaced, the CMSI and the DSA intended to replace the Ahmanson building and leave the Armory building. However, according to the state architect, it was appropriate to use the funds only for construction of the Ahmanson building because the CMSI was replacing the two original CMSI buildings with one that equalled the size of both.

- The state architect recommended that the CMSI employ the more restrictive Field Act codes as the design standards for the CMSI project. The CMSI agreed with the DSA's recommendation and approved the use of the more restrictive codes. However, according to an opinion of the Legislative Counsel, the building standards of the Field Act do not apply to the construction of the new museum at the CMSI and, instead, the CMSI should use building standards under the California State Building Standards Code.

- Further, even though cost estimates were based on the use of the Field Act standards, the DSA took the necessary steps to obtain a cost comparison and recommended the reconstruction of an expanded museum based on the lower of the cost estimates.

- As required, the CMSI consulted with two historical boards before submitting the budget package for the new museum to the Department of Finance.

- The DSA used the funds of the Earthquake Safety and Rehabilitation Bond Act of 1990 to pay for expenditures that, according to the state architect, were a necessary and integral part of the new museum facility.

Recommendations

The DSA should take full advantage of the benefits that are realized when contract work is awarded through a competitive process. Before simply adding significant new work to existing contracts, the DSA should thoroughly assess whether or not it would be more prudent to seek competitive bids or proposals first.
To ensure that it receives a fair and reasonable price, the DSA should prepare an estimate of services before negotiations and not rely on the consultant contractor's cost proposals.

To ensure that it does not limit competition in selecting its consultant contractors, the DSA should advertise all contracts in the California Contracts Register and through publications of professional societies.

To ensure that it does not expose the State to potential financial liability for work performed if the contract is not approved, the DSA should take the following steps:

- Ensure that its consultant contractors do not perform work or provide services before the DSA obtains approvals for its contracts; and

- Require its consultant contractors to submit invoices that include specific service dates.

Agency Comments

In its response, the DGS states that it will take appropriate actions to address our recommendations. However, the DSA also responds that it disagrees with some of the conclusions of our report. For example, the DSA contends that its decisions to amend existing contracts, instead of performing a new selection process, were in the best interest of the State. In addition, the DSA disagreed that it exposed the State to potential monetary liability when its consultant contractors started work before the contract was approved.

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Introduction

The Department of General Services (DGS) is responsible for planning, acquiring, designing, constructing, maintaining, and operating state-owned facilities for state offices and employees. Until fiscal year 1986-87, the DGS' Office of the State Architect (OSA) had overall responsibility for the design and construction of state facilities (capital outlay program). Under the capital outlay program, the OSA was responsible for designing a project, selecting architectural and engineering consultants, bidding and awarding construction contracts, supervising and inspecting construction, preparing the project budget, and managing the overall project schedule.

During 1986, the DGS reorganized project management responsibilities. It did so by combining the long-range planning and environmental review function of the Office of Facilities Planning and Development with the project management activities of the OSA. The DGS planned to combine these functions into a newly formed Office of Project Development and Management (OPDM) by gradually shifting the project management responsibilities from the OSA to the OPDM. However, the DGS has only partially accomplished this shift, and the OSA and OPDM continue to share responsibility for administering the State's capital outlay program.

In July 1993, to improve services for its clients, the OSA reorganized. The OSA became the Division of the State Architect (DSA) comprising three offices: Office of Design Services, Office of Construction Services, and Office of Regulation Services. Each of the three offices has a chief who reports directly to the state architect on operational and technical issues. The Office of Design Services is responsible for managing the design of new projects, overseeing improvements to existing facilities, and managing special programs such as seismic and toxic

programs. The Office of Construction Services manages and inspects state building and correctional projects performed by contract and ensures that the construction conforms with approved plans and specifications. The Office of Regulation Services is responsible for plan checking and inspection services, particularly those aspects of a project involving structural safety, access for the handicapped, and fire and life safety for state buildings and public schools.

To fulfill its responsibilities, the DSA typically awards three types of contracts. These are architectural and engineering contracts, construction contracts, and contracts for retainer services. From July 1992 through October 1994, the DSA awarded approximately $174 million for contracts.

Scope and Methodology

The Budget Act of 1994 (budget act) required the Bureau of State Audits to conduct a management review of the DSA to evaluate the degree to which the state architect provides oversight, coordination, and leadership in meeting the State's property management goals. More specifically, the budget act required us to review whether the DSA complies with the California Government Code and the Public Contract Code for awarding work related to state construction projects. In addition, the budget act required us to determine whether the DSA complies with the requirements for the participation of minority-, women-, and disabled veteran-owned business enterprises in state contracts. Further, the budget act requires us to review whether the DSA coordinates with local government development plans.

We reviewed laws, regulations, and the DSA's procedure manuals, and we interviewed DSA and other staff of the DGS to identify the degree to which the state architect provides oversight, coordination, and leadership in meeting the State's property management goals. Our review indicated that the DGS has not assigned the DSA any significant property management responsibilities. Instead, the OPDM and the Office of Real Estate and Design Services (OREDS) share this responsibility.

The OPDM is responsible for planning the development of state office facilities, forecasting future space requirements for agencies, and initiating the first steps toward constructing, financing, and purchasing a state building. Additionally, the OREDS is responsible for allocating space in state-owned and leased office buildings, negotiating leases, selecting and acquiring real estate, maintaining the statewide property inventory, and managing state property. The DSA's role within the DGS is to provide architectural, engineering, and construction services to state departments and agencies for the design and construction of buildings and other facilities. Therefore, our review is limited to the DSA's administration of contracts related to the architectural services it provides.

To determine whether the DSA complies with the California Government Code and the Public Contract Code for awarding work related to state construction projects, we reviewed the state laws, regulations, and departmental policies and procedures related to contracts for construction, architectural and engineering services, and construction project management. In addition, for comparison purposes, we obtained the contracting policies and procedures for both architectural and engineering services and construction contracts of the California Department of Transportation. We determined the DSA's compliance with these laws and policies by reviewing contracts for architectural and engineering services, retainer contracts, and contracts for construction that the department awarded from July 1, 1992, through October 31, 1994. Because we reviewed contracts related to the California Museum of Science and Industry (CMSI) project, we also reviewed one contract that the DSA awarded in June 1991.

To review whether the DSA complies with the requirements for the participation of minority-, women-, and disabled veteran-owned business enterprises, using the previously selected sample of contracts, we assessed whether the DSA either is meeting the participation goals or can document that it is making a good faith effort to meet them.

To determine whether the DSA coordinates with local government development plans, we reviewed the laws and

regulations the state architect is required to follow, interviewed DSA staff, and reviewed DSA procedures manuals. Our review disclosed that the DSA's responsibilities are to provide architectural, engineering, and construction services to state departments for the design and construction of buildings and other facilities. The DSA's role does not extend to coordinating with local government development plans. Therefore, we did no audit work in this area.

During the audit, concerns were raised that the DSA did not follow state contracting procedures when it awarded contracts for the retrofitting or new construction of the Armory and Ahmanson buildings in Exposition Park at the CMSI in Los Angeles. To address these concerns, we included all six contracts related to the CMSI project in our sample of contracts. We discuss our findings related to these contracts and others that we reviewed in Chapter 1.

Other concerns were raised regarding the use of monies from the Earthquake Safety and Rehabilitation Bond Act of 1990 (1990 seismic bond act) to upgrade or reconstruct the Armory and Ahmanson buildings. To address these issues, we reviewed the DSA's process for evaluating state buildings, in addition to its methodology for developing the occupancy statistics used in its evaluation.

Many concerns have been voiced about the CMSI's project to build a new museum facility.

Additional concerns were raised that, although the DSA was directed to use the 1990 seismic bond act monies to retrofit both the Armory and Ahmanson buildings of the CMSI, the plan ultimately adopted by the DSA and the CMSI intends only to use these funds to demolish the Ahmanson building and replace it with a much larger building. Other concerns focused on the proposed demolition of two other CMSI buildings—the Mark Taper Hall of Economics and the IMAX Theater. To address these concerns, we reviewed the legislation that appropriated funds for this project, reviewed the master planning study of the Exposition Park developed for the CMSI, interviewed the DSA staff, and reviewed the minutes of the meetings of the Public Works Board at which the project to construct a new museum facility was approved.

A further concern was raised that the DSA relied on an incorrect seismic standard when it decided it would be

more prudent to replace rather than restore the Ahmanson building. A related issue was that retrofitting the Ahmanson building would be less expensive than replacing the building. To determine whether the DSA has the authority to determine the seismic standard to be used, we requested an opinion from the Legislative Counsel. Additionally, we reviewed cost estimates associated with retrofitting versus replacing the Ahmanson building.

Finally, a concern surfaced that the DSA and the board of the CMSI approved the demolition of the historic Ahmanson building without sufficiently consulting with the Office of Historic Preservation and the State Historic Building Safety Board. To determine whether the DSA is required to consult with these agencies, we reviewed portions of the California Government Code, the California Code of Regulations, and the State Historic Building Code. Finally, we interviewed staff and reviewed documents of the Office of Historic Preservation and the State Historic Building Safety Board.

Chapter 1

The State Architect Did Not Always Comply With State Requirements When Procuring Architectural, Engineering, Construction, and Other Services

Chapter Summary

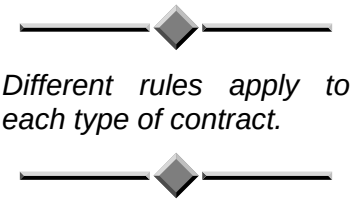
We reviewed the Division of the State Architect's (DSA) method of awarding contracts for designing and constructing state facilities and found that the DSA does not always comply with state contracting policy when it awards these contracts. For example, for 12 amendments to architectural and engineering contracts, the DSA added significant changes to the contracts that neither the consultant contractors nor the DSA had contemplated for the original contracts. By adding large additional projects through amendments, rather than separate contracts, the DSA has denied other firms the opportunity to compete for more than $1.2 million awarded through these amendments.

Additionally, we found that the DSA did not always prepare independent estimates before it negotiated fees with its consultant contractors. Also, the DSA awarded one contract without proper advertising, and it did not obtain the required approvals before some consultant contractors performed services for their contracts. Finally, the DSA did not adequately monitor all reimbursable costs, could not always support its competitive process, and did not always obtain approvals when it exceeded its sole source and delegated authority limits.

Background

Of the three types of contracts the DSA awards, it uses architectural and engineering contracts to obtain architectural services, engineering services, land surveying, or construction project management services.

It uses construction contracts to obtain services related to the erection, construction, alteration, repair, or improvement of state buildings. Lastly, the DSA awards retainer contracts on an "on-call" basis. For example, the DSA uses retainer contracts to hire outside expertise when DSA employees cannot accomplish a particular portion of a project in the time allotted for it.



Different rules apply to each type of contract.

When it awards construction contracts, the DSA is required to follow the Public Contract Code, Section 10140. On the other hand, when awarding contracts for architectural and engineering services, the DSA follows the California Government Code, Sections 4525 through 4529. The essential difference in awarding a contract for architectural and engineering services versus awarding a contract for construction services is how the cost of the contract is determined and at what point in the process the qualifications of the competing consultant and construction contractors are considered. In selecting a consultant to provide architectural and engineering services, a state department first reviews the demonstrated competence and professional qualifications of the candidates. Once a top candidate is selected, the department and the candidate attempt to reach agreement on a reasonable cost for the contract. For construction contracts, the department also reviews the qualifications of potential consultant contractors, but only allows those contractors who are deemed qualified to bid on the project. The department then determines the lowest responsible bid from among all bids submitted and that bid becomes the cost for the contract.

To select a consultant to provide architectural and engineering services, the DSA appoints a panel to measure, using specified criteria, the qualifications competing firms have submitted. From this initial review, the DSA selects a number of firms and invites them to answer questions regarding their qualifications and their approach to the pending project. Another panel then conducts the interviews and ranks the finalists based on specified criteria. The California Government Code, Section 4527, requires the DSA to identify no less than three firms as being the most highly qualified to provide the services the DSA requires. The government code further requires the DSA to negotiate for a fair and reasonable

price with the firm that is ultimately determined to be the most qualified. The DSA follows a similar process when it selects consulting firms for the retainer contracts.

To determine whether the DSA was complying with all state contracting procedures, we reviewed 60 construction, architectural, and engineering contracts it awarded between July 1992 and October 1994. Because we reviewed contracts related to the California Museum of Science and Industry (CMSI) project, we also reviewed one contract that the DSA awarded in June 1991. We reviewed documents related to 26 architectural and engineering contracts, 18 retainer contracts, and 16 construction contracts. We also reviewed 70 amendments issued for the architectural and engineering contracts, 30 amendments issued for the retainer contracts, and 52 change orders for the construction contracts.

The DSA Amended Contracts Rather Than Using a Competitive Process

Based on our review of 70 amendments to architectural and engineering contracts, we found 12 amendments adding significant changes to four contracts. These 12 amendments were not envisioned for the original contracts. The DSA originally awarded the four contracts for a total of approximately $859,000. The 12 amendments increased the original contracts by approximately $1.2 million. For these 12 amendments, we believe that the DSA should have followed the State's competitive process and awarded these amendments as separate contracts, rather than simply amending the existing contracts.

One contract was amended six times, increasing the total 179 percent.

One of the architectural and engineering contracts in our sample was awarded to an architectural firm to develop a master planning study of Exposition Park in the city of Los Angeles. The DSA and the architectural firm originally negotiated a fee for this contract of approximately $287,000. However, $513,000 was added to the cost of the contract via six contract amendments for an increase of approximately 179 percent. For example, the DSA approved two amendments totaling approximately $256,000 that required the architectural firm to prepare an Environmental Impact Report (EIR). This increased the

original negotiated contract price by 89 percent. The DSA approved two other amendments totaling approximately $207,000 for exhibit design work and another two amendments totaling $50,000 for a traffic study. These four amendments increased the original contract by an additional 89 percent. Each of the six amendments required the architectural firm to provide entirely new and discrete work not needed as an extension to the original contract.

Discussions between the DSA and the architectural firm indicated that, during the initial negotiations in April 1991, the DSA did not plan to have the architectural firm prepare the EIR. In fact, the DSA indicated at that time that the EIR would be the responsibility of the Office of Planning Development and Management (OPDM). Eventually, the OPDM informed the DSA that it would need to obtain the services of an outside consultant contractor to perform the EIR. Subsequently, in December 1991, six months after the contract between the DSA and the architectural firm was approved, the DSA approved an amendment that directed the architectural firm to prepare the EIR. Thus, we concluded that it was clearly not the DSA's intent for the architectural firm to prepare the EIR when the DSA originally negotiated for this contract. Because the six amendments were for three discrete projects, we believe the DSA should have competitively bid separate contracts.

According to the state architect, the DSA chose to amend the contract to incorporate the preparation of the EIR because the process to select an outside consultant contractor would have taken approximately 4 to 6 months and would have involved the considerable efforts of its own staff. However, the DSA first knew that an outside consultant would be needed in May 1991, and the architectural firm was not required to have its draft EIR complete until 24 months later, in May 1993. In our view, 24 months would have allowed sufficient time for the DSA to select an outside consultant through a competitive process, while leaving enough time for the consultant to complete the work.

Amendments were for discrete projects not envisioned in the original contract.

The DSA approved two additional amendments to its contract with the architectural firm to provide exhibit design services. Documents included in the DSA's project file indicated that this work was beyond the original intent of the contract. A memo dated October 7, 1991, indicates that the DSA considered using a certain consultant contractor on a sole source contract to perform the additional exhibit design services. Subsequently, it chose to amend the contract, and the architectural firm hired the consultant contractor discussed in the memo as a subcontractor to perform the work.

Two other contracts that we reviewed originally procured services for the removal of asbestos at specific sites. The DSA approved amendments to both contracts to add sites not specified in the original contract. We believe the DSA should have awarded the additional work through a competitive process rather than simply amending the contract of the existing consultant contractor. In the first contract, the DSA required the consultant contractor to remove asbestos at two sites at a cost of approximately $142,000. It ultimately approved four amendments, adding two sites and increasing the original contract cost by approximately $225,000 or 158 percent. We believe this amount should have been awarded through new contracts. Similarly, the DSA approved two amendments for the second contract that added two sites and increased the original contract by approximately $85,000 or 123 percent.

Emergency sole source approval exceeded by $398,000.

Another contract we reviewed required a consultant contractor to deal with groundwater contamination at Los Alamitos Armed Forces Reserve Center. The DSA obtained the approval of the Department of General Services (DGS) to award the original contract as an emergency sole source. It was given such approval with the understanding that the work on this contract was for interim emergency services not to exceed $750,000 until the DSA was able to obtain the services of a long-term consultant contractor through the normal competitive process. The DSA eventually awarded the original contract for a total of $361,000.

In addition to the original contract, it approved two amendments to the contract that increased the total cost of the contract by approximately $787,000, exceeding the original sole source approval by approximately $398,000. The first amendment added new work not included in the original contract. The second amendment also added new work and extended the time of services until September 1995, making the duration of the contract approximately two and one-half years. Based on the sole source approval, the DSA's original intention was to award this contract using a competitive process. Instead, it chose to avoid the competitive process by simply amending the original sole source contract.

The California Government Code and the Public Contract Code do not provide state agencies with specific guidance regarding contract amendments. For example, the law does not provide guidance regarding when it is appropriate to amend a contract versus when it would be more appropriate to submit the new work to a competitive process. The DSA's procedures for amendments state that the DSA and the consultant contractor, by written mutual agreement, may adjust the consultant contractor's compensation in a reasonable amount if the amount of work is changed from the original agreement. While the DSA's procedures allow for amendments to its contracts, there are no established guidelines for the types of contract changes that would be considered reasonable.

To determine how other departments consider contract changes, we reviewed the Department of Transportation's procedures. We found that the Department of Transportation's procedures state clearly that an amendment should not materially alter the overall scope of the contract, and for major changes, the department should complete a new contract. The Department of Transportation's procedures define a scope change as any change to the project standards, deliverables, or milestones that the Department of Transportation and the consultant contractor did not contemplate in the original contract.

By adding large projects through amendments rather than separate contracts, the DSA is foregoing the advantages of awarding these pieces of work through a competitive

process. By using the State's competitive process, the DSA has a better opportunity to contract with the most qualified firms and obtain the most reasonable prices. In addition, the DSA has denied other firms the opportunity to compete for the more than $1.2 million of new work that was awarded through the amendments to the contracts we reviewed.

The DSA Does Not Always Prepare Estimates Before Negotiating Fees

The DSA did not always prepare independent estimates before it negotiated fees with consultant contractors. An independent estimate should provide individuals negotiating on the State's behalf with information to ensure they are fully prepared to obtain a reasonable price. The California Government Code, Section 4528, requires that state agency heads contract with firms for architectural, landscape architectural, engineering, and environmental services, land surveying, or construction management services at a fair and reasonable price. The California Code of Regulations, Title 21, Subchapter 4, Article 2, Section 1313, requires that before the DSA discusses fees with a firm, the director of the DGS prepare an estimate of the value of such services. This estimate must remain confidential until the contract is awarded or the negotiations are abandoned. Further, the director must not award a contract when the total fee negotiated with the consultant contractor would exceed the estimate by 10 percent.

Nine amendments awarded without an independent estimate.

We reviewed 26 architectural and engineering contracts, 18 retainer contracts, and 73 amendments to determine whether the DSA prepared independent estimates before it negotiated fees with its consultant contractors. However, we found that nine estimates were dated later than the fee proposals the consultant contractors submitted to the DSA. The DSA awarded the nine amendments related to these estimates for the same amounts the consultant contractors submitted as their fee proposals. We could not locate any estimates for 6 amendments and 3 retainer contracts, and one additional estimate was not dated.

When the DSA does not prepare the estimate before it receives the consultant contractor's cost proposal, the

consultant contractor may have an advantage. Without an independent estimate, the DSA does not have guidelines to measure the reasonableness of the consultant contractor's cost proposal or to determine what a more reasonable proposal might be. By determining an estimated amount, the DSA can assess whether a consultant contractor proposes a fair and reasonable price for services to the State.

The DSA Did Not Advertise as Required for One Contract

During our review of architectural and engineering contracts, we found one contract that the DSA awarded to a private consultant contractor without advertising. The California Government Code, Section 4527, requires that the DSA publish in publications of respective professional societies statewide announcements of all projects for which it needs to retain outside consultant contractors for architectural and engineering services. Also, the DSA's own procedures require the advertisement in the California Contracts Register of all DSA contracts of more than $1,000.

The DSA hired a private consultant contractor to serve as a project manager for the demolition and construction of a state building for the CMSI. The DSA approved the contract in October 1992 for a total of $85,000. To continue the services of this consultant contractor beyond the period of the original contract, the DSA has amended the contract three times as of January 1995.

For most projects assigned to the DSA, DSA staff act as the project managers. However, according to the state architect, the CMSI demolition and construction project was larger than most projects the DSA is usually assigned. The state architect states that the DSA did not have qualified civil service employees who could spend the amount of time required for this project; therefore, it obtained the services of an outside consultant contractor.

During our review of the DSA's process to award this contract for a project manager, we found that the DSA did not properly advertise the contract, nor did it advertise the

contract in the California Contracts Register or in the professional society publication, as required. However, the DSA did contact a professional society, the California Council, American Institute of Architects (AIA), which it normally uses for advertising. The AIA provided the state architect with a list of approximately 8 to 12 potential consultant contractors.

The DSA's usual method of advertising requires the publication of the request for qualifications in the AIA newsletter sent to its members. Instead, the executive vice president of the AIA developed a list of potential candidates based on discussions with the state architect about the qualifications the state architect desired. According to the state architect, the list was limited to candidates in the Los Angeles area because the CMSI project was for a limited term and it was not realistic to expect someone to relocate. Eventually, the state architect narrowed the list to three individuals. From this point on, the DSA followed its selection process and awarded the contract to the candidate with the highest score after a review of each of the three candidates' qualifications.

Rather than advertising, contractor was chosen from a list of 8 to 12 provided by the American Institute of Architects.

Because the DSA did not appropriately advertise this contract in the California Contracts Register and the professional societies' publications, the DSA has limited the competitive selection process. When competition is limited, the contracting organization reduces the likelihood that it has obtained the most qualified consultant contractor and reduces the possibility that it has obtained the work at the most reasonable price.

Consultant Contractors Began Work Before Contract Approval

The Public Contract Code, Section 10295, states that all contracts entered into by state agencies are void unless and until approved by the DGS. However, in seven instances, the DSA did not obtain the required approvals before the consultant contractors performed services for a contract.

State architect suggests that its consultant contractors omit dates on invoices.

We reviewed 44 consultant contracts and the related amendments. We found that for three contracts and four amendments, the consultant contractor performed services before obtaining the approval of the DGS. We were unable to determine whether the consultant contractor provided services before contract approval for 96 of 230 invoices that we reviewed because the consultant contractor did not include specific service dates on these invoices. The DSA suggested to its consultant contractors that it is preferableto omit dates and include a statement that "the work was performed after the execution date and within the performance period of the contract" on their invoices.

When the consultant contractor does not include specific service dates on its invoices, the DSA is unable to determine whether the consultant contractor provided services before approval of the contract or amendment. In addition, without service dates, the DSA may not have the information it needs to ensure there are no duplicate billings for services. Although services may have been provided before the approval of the contracts or amendments, the DSA did not make any payments to the consultant contractors until after the contracts were approved. However, by failing to ensure that approval was obtained before work began, the department exposed the State to potential financial liability for work performed if the contract or amendment had not been approved.

The DSA Did Not Adequately Monitor All Consultant Contractors' Reimbursable Costs

Before reimbursing its consultant contractors for "out of pocket" expenses, the DSA has not always obtained receipts, as required. Also, in several instances, the DSA has over-reimbursed its consultant contractors. Because many contracts the DSA enters into run at least several months or, in some cases, years, the DSA usually makes periodic progress payments to the consultant contractors. Most of the consultant contractors submit monthly invoices to the DSA. Before paying the invoice, someone familiar with the work produced by the consultant is required to review the invoice to determine the accuracy and reasonableness. Typically, the consultants bill for their

services in two categories—payment for the hours spent providing services to the DSA and reimbursement for out-of-pocket expenses incurred while providing services to the DSA. Typical out-of-pocket expenses include travel, long-distance telephone calls, and photocopying. The DSA's instructions to consultant contractors require that the consultants submit receipts for all reimbursable expenses or the DSA will return the invoices to the consultants and request that receipts be provided. Additionally, the DSA stipulates that its consultant contractors be reimbursed for travel expenses at no more than the same rates as for state employees.

We found that the DSA paid three consultant contractors for reimbursable expenses without obtaining the supporting receipts. More specifically, the DSA paid reimbursable expenses without supporting receipts for 12 invoices, totaling approximately $37,000 for one consultant contractor; 7 invoices, totaling approximately $1,400 for a second consultant contractor; and 4 invoices, totaling approximately $250 for a third consultant contractor. We also found that for 9 invoices we reviewed, the DSA paid rates for lodging and meals that exceeded the State's reimbursement rates. The 9 invoices exceeded the State's rates by a total of $231.

Expenses of $38,650 were paid without required. receipts.

By not requiring that the consultant contractors always provide receipts, the DSA may not detect inappropriate or duplicate expenses. Additionally, because the DSA did not adequately monitor invoices, it paid $231 more than the amount authorized by state rules.

Inadequate Documentation Supporting the Contracting Process

Contrary to state requirements, the DSA could not always provide evidence that its consultant contractors had made a good faith effort to identify subcontractors that were qualified businesses owned by minorities, women, and disabled veterans. The State Administrative Manual, Section 1266, requires that a contractor provide documentation of self-certification or good faith effort to qualify as a minority, women, or disabled veteran/business enterprise (M/W/DVBE). The DSA's procedures state that a certification obtained from the Department of

Transportation or the Office of Small Business and Minority Business also is acceptable as evidence of qualification as a M/W/DVBE. A good faith effort includes identifying potential M/W/DVBEs, advertising in trade papers focusing on M/W/DVBEs, and sending solicitations to potential M/W/DVBEs with sufficient lead time to fully entertain and consider the responding bids. In addition, the Public Contract Code, Section 10180, requires that the DSA award its construction contracts to the lowest responsible bidder whose proposal complies with all guidelines.

For 2 of 16 construction contracts we reviewed, the DSA could not provide us with documents to indicate that the construction contractors had met the M/W/DVBE requirements. Specifically, for one contract, the construction contractor did not sign the self-certification. For the second construction contract, the DSA could not provide us with evidence that the contractor had advertised for M/W/DVBEs.

For 3 of 16 construction contracts we reviewed, we were unable to determine whether the DSA awarded the contract to the proper bidder because the DSA did not maintain the bid submittals for the construction contracts.

Exceeding Sole Source and Delegated Authority Limits

The DSA's procedures require that it obtain the approval of the DGS for all architectural or engineering contracts that exceed the DSA's delegated authority of $300,000. Additionally, the DSA must obtain approval from the DGS for all sole source contracts.

We noted three instances in which the DSA amended contracts above its delegated authority of $300,000 without obtaining the required DGS approvals. Specifically, for one contract, the second amendment exceeded the DSA's delegated authority by $55,246 and the third amendment by an additional $12,000. The DSA did not obtain DGS approval for either amendment. For a second contract, the DSA exceeded its delegated authority by $45,742 when it approved the contract's fourth amendment. Again, the DSA did not obtain the approval of the DGS for the fourth

amendment, but it did obtain approval for subsequent amendments.

Additionally, the DSA obtained sole source approval totaling $78,000, yet it did not obtain additional authority when it awarded the contract and amendments for $134,000, which is $56,000 greater than the original approval.

Conclusion

The DSA added significant changes to existing contracts that neither the consultant contractors nor the DSA had contemplated for the original contract. However, it did not competitively bid for this additional work. As a result, the DSA has denied other firms the opportunity to compete for more than $1.2 million awarded through 12 amendments. Additionally, the DSA did not always prepare independent estimates before it negotiated fees with its consultant contractors. Also, it awarded one contract without proper advertising. Further, the DSA did not obtain the required approvals before some consultant contractors performed services for a contract. Finally, the DSA did not adequately monitor all reimbursable costs, could not always support its competitive process, and did not always obtain approvals when it exceeded its sole source and delegated authority limits.

Recommendations

The DSA should begin to take full advantage of the benefits realized when contract work is awarded through a competitive process. Before simply adding significant new work to existing contracts, the DSA should thoroughly assess whether or not it would be more prudent to seek competitive proposals.

To ensure that it receives a fair and reasonable price, the DSA should prepare an estimate of services before negotiations and not rely on the consultant contractor's cost proposals.

To ensure that it does not limit competition in selecting its consultant contractors, it should advertise all contracts in the California Contracts Register and in the publications of professional societies.

To ensure that it does not expose the State to potential financial liability for work performed if the contract is not approved, the DSA should take the following steps:

- Ensure that its consultant contractors do not perform work or provide services before the DSA obtains approvals for its contracts.

- Require its consultant contractors to submit invoices that include specific service dates.

To ensure that its expenditures for contracts are appropriate and reasonable, the DSA should take the following steps:

- Pay for only those expenses allowed within the contract provisions and supported by receipts.

- Review invoices that it has already paid and recover all travel costs exceeding the State's allowable reimbursement rates.

- Review all future invoices, before payment, to ensure that payments for travel costs do not exceed the State's reimbursement rates.

The DSA should ensure that it receives and retains the documents necessary to show that a construction contractor has met the M/W/DVBE requirements and that a contract has been properly awarded.

The DSA should ensure that it obtains all required approvals when it exceeds its delegated authority and sole source limits.

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Chapter 2

State Laws and Regulations Give the State Architect Broad Discretion To Manage a Major Construction Project

Chapter Summary

The Division of the State Architect (DSA) is responsible for managing a major construction project that involves the seismic upgrading of the Armory and Ahmanson buildings owned by the California Museum of Science and Industry (CMSI) and located in Exposition Park in the city of Los Angeles. The Earthquake Safety and Rehabilitation Bond Act of 1990 (1990 seismic bond act) requires that eligibility for seismic upgrading of state buildings or facility projects be based upon criteria established by the state architect. The DSA developed a five-step process for determining which of the State's buildings or facilities should be considered top priority for correction of seismic and related fire and life safety hazards. The DSA's evaluation, which was completed in October 1994, placed the Armory and Ahmanson buildings in the top 15 of 400 buildings that exhibit the highest potential risk from a damaging earthquake.

One step in the DSA's five-step process involved a comparative analysis of the average number of people using each of the buildings. The DSA acknowledged that it would have preferred to use actual occupancy data for these analyses, but chose not to. Instead, it chose to use a method that inflated the attendance figures but, according to the state architect, provided a more consistent method by which to compare the relative populations at risk for the various buildings.

Legislation required that approximately $39.9 million from the 1990 seismic bond act be used for the correction of all seismic and other fire and life safety problems identified in both the Armory and Ahmanson buildings. However, the

current project, as approved by the Public Works Board in March 1994, will replace the Ahmanson building and leave the Armory building. According to the state architect, it was appropriate to use the funds for construction related only to the Ahmanson building because the DSA was replacing the two original CMSI buildings with one much larger building.

The state architect recommended that the CMSI employ the more restrictive Field Act codes as the design standards for the CMSI project. The CMSI agreed with the DSA's recommendation and approved the use of the more restrictive codes. However, according to an opinion of the Legislative Counsel, the building standards of the Field Act do not apply to the construction of the new museum facility at the CMSI and, instead, the building standards under the California State Building Standards Code should apply. Further, even though cost estimates were prepared based on the use of the Field Act standards, the DSA took the necessary steps to obtain a cost comparison and recommended the reconstruction of an expanded museum facility based on the lower cost.

As required, the CMSI consulted with two historical boards before submitting the budget package for the museum facility to the Department of Finance. Finally, the DSA used the 1990 seismic bond act funds to pay for expenditures that, according to the state architect, were a necessary and integral part of the new museum facility.

Background

The CMSI is located in Exposition Park, a state-owned 104-acre tract just south of the central part of Los Angeles. The Exposition Park also contains the Natural History Museum of Los Angeles County, the California African-American Museum, the Los Angeles Memorial Coliseum, and the Sports Arena (a swim stadium and recreational center) as well as open space and landscaped areas. Until October 1990, the CMSI housed exhibits and programs focusing on the scientific and industrial development of the State within nine buildings located in Exposition Park: the Aerospace Hall, Armory Building, Hall of Health, Science Wing, Ahmanson Building, Mark

Taper Hall of Economics and Finance, IMAX Theater, and California Afro-American Museum.

In October 1990, the CMSI closed the Armory and Ahmanson buildings to the public based on the recommendation of the state architect because the buildings did not meet “current seismic design standards.” According to a structural investigation and analysis conducted by the Office of the State Architect, the Armory and Ahmanson buildings were structurally inadequate to resist the lateral forces of earthquakes as required by the California Building Code. At the time, structural engineers and the Office of the State Architect estimated renovation costs for both buildings at a total of approximately $41.3 million.

In June 1990, before the closure of the Armory and Ahmanson buildings, the voters of the State of California approved the 1990 seismic bond act, which authorized $300 million in state general obligation bonds for the reconstruction, repair, replacement, relocation, or seismic retrofitting of buildings owned by local governments and the State. Additionally, the 1990 seismic bond act required that eligibility for retrofitting, reconstruction, repair, replacement, relocation, or other seismic hazard abatement for state buildings or facility projects be based upon criteria established by the state architect.

In July 1991, the governor and the Legislature appropriated $41.3 million from the 1990 seismic bond act fund for the correction (through repair, retrofitting, or new construction) of all seismic and other fire and life safety problems identified with the Armory and Ahmanson buildings. Again, in September 1992, the governor and the Legislature approved Chapter 757, Statutes of 1992 (Chapter 757), which reappropriated approximately $39.9 million from the 1990 seismic bond act for the correction of all seismic and other fire and life safety problems identified with the Armory and Ahmanson buildings, whether through repair or replacement, including the cost of preliminary plans, working drawings, and construction.

Finally, in Chapter 139, Section 1100-301-660 of the Budget Act of 1994 (budget act), the sources of funding for

the CMSI project changed. In the budget act, the governor and the Legislature approved approximately $29.4 million from the Public Buildings Construction Fund for construction of the new museum. However, because the Legislature and the governor approved an alternative source of funds for the CMSI project, Chapter 139, Sections 1100-495, also returned to the 1990 seismic bond act fund approximately $24.9 million of the funds originally appropriated by Chapter 757. As of March 1995, other than the north facade wall, the Ahmanson building has been demolished.

We reviewed whether the DSA followed state contracting laws and regulations when it awarded contracts related to this major construction project; whether the DSA followed the appropriate building codes and consulted with the required advisory boards before making decisions that resulted in the demolition of a major building; and whether the DSA accurately followed the directives of the Legislature and the governor, who placed conditions on how this project was to proceed.

The Armory and Ahmanson Were Eligible To Receive Seismic Bond Monies

The 1990 seismic bond act required the DSA to establish criteria that would be used to determine whether a state building or facility is eligible for the 1990 seismic bond act funds. In response, the DSA, in consultation with the Seismic Safety Commission (commission) and its Professional Advisory Committee, evaluated approximately one-half of the 14,000 state buildings to determine their susceptibility to earthquakes. According to the DSA's State Building Seismic Program report (seismic report), the DSA and the commission believe that this evaluation included all of the most significant buildings in terms of population at risk and type of use.

The Armory and Ahmanson buildings were added to the eligible building list in 1994.

For its evaluation, the DSA established a five-step evaluation process. At the conclusion of each step, buildings that exhibited the highest level of potential risk were forwarded to the next step for further evaluation. Steps one and two of the process considered the structural characteristics of a building to identify those with major structural deficiencies. Step three brought into the analysis those buildings with higher populations or functional use. Step four included a benefit cost analysis for correcting the deficiencies for each building included in step three. Finally, step five resulted in a list that reflects the buildings that the DSA recommended should be considered highest priority for retrofitting or replacement.

The DSA released its first list of state buildings it recommended to receive 1990 seismic bond act funds in April 1994. When the DSA developed the first list, it did not include the Armory and Ahmanson buildings in its five-step process. According to the state architect, the DSA did not initially evaluate the Armory and Ahmanson buildings because the Legislature and the governor had already approved the allocation of seismic bond act funds for the two buildings. In July 1991, approximately three years before the release of the seismic report, funding had been approved for the two buildings. Therefore, the state architect noted, it seemed appropriate to include only those state buildings for which there was no previous appropriation of funds.

Subsequently, the Legislative Analyst's Office requested that the state architect apply the criteria it used to evaluate other state buildings to the Armory and Ahmanson buildings. After doing so, the DSA's evaluation placed the Armory and Ahmanson buildings in the top 15 of 400 buildings that exhibit the highest potential risk from a damaging earthquake. Based on the DSA's evaluation of the Armory and Ahmanson buildings, they were eligible to receive 1990 seismic bond act monies.

The DSA Used Inflated Occupancy Figures for All Buildings

In developing the list of buildings that it considered the highest priority for the 1990 seismic bond funds, the DSA

combined a ranking for the structural deficiencies in a building from step two of its evaluation process with a ranking for those buildings with a higher population and functional use from step three. To determine population, the DSA requested information from state departments about how many people use each state building at any given time. According to the state architect, the DSA staff found that, in many instances, the departments' occupancy figures were inaccurate. As a result, the DSA staff chose not to use the occupancy information that state agencies provided on the questionnaires. Instead, it used a factor called "code occupancy" to represent each building's occupancy level.

The DSA defines code occupancy as the gross area of a building divided by the "occupant load factor." The Uniform Building Codes, Table 33-A.1, establishes occupant load factors based on a building's type of use and represents the maximum number of occupants allowable in a building. For example, the state architect classified the Ahmanson building as an assembly area with less concentrated use, containing exhibit rooms. Table 33-A.1 of the Uniform Building Codes establishes the occupant load factor for the Ahmanson building based on its use as 15 square feet per occupant. When the DSA divides the square footage of 131,783 for the Ahmanson building by the occupant load factor of 15, the resultant figure of 8,786 represents the code occupancy for the Ahmanson building. However, in its response to the original questionnaire, the CMSI estimated the number of persons occupying the building at any given time during the day as between 501 and 5,000. As this indicates, the DSA's use of code occupancy appears to inflate the building's occupancy statistics. The DSA also calculated the code occupancy of the Armory building to be 9,896. The response to the original questionnaire indicated that the Armory may contain between 50 to 250 people at any given time, significantly less than the code occupancy.

According to the state architect, using a code occupancy factor rather than actual occupancy figures does inflate a building's usage. However, the DSA consistently used this methodology for all 400 buildings it evaluated in step three of its process, thus consistently inflating the occupancy statistics for all buildings. According to the state architect,

this methodology is not perfect but is valid because it provides a more consistent method by which to compare the relative population at risk for the various buildings rather than the inaccurate occupancy figures included by state departments.

Use of Seismic Bond Funds for the Ahmanson Building Only

Chapter 757 required that approximately $39.9 million from the 1990 seismic bond act be used for the correction of all seismic and other fire and life safety problems identified with the Armory and Ahmanson buildings, whether through repair or replacement. When asked why both buildings are not being replaced, the state architect told us that the specific language of Chapter 757 allowed the DSA some latitude as to how the two buildings were to be repaired or replaced. In the opinion of the state architect, the word "replace," as used in Chapter 757, did not mean that the Armory and the Ahmanson buildings had to be replaced with two new buildings of the same size and square footage. Rather, the state architect and the CMSI agreed on a plan to replace the old Armory and Ahmanson buildings by constructing a significantly larger new museum facility. According to the state architect, the size of the new museum facility would be increased to equal approximately the square footage of the two original buildings to accommodate the loss of the exhibit space. Also, the CMSI is currently considering a proposal to transfer the Armory building to the Los Angeles Unified School District.

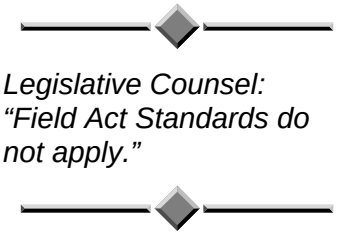
Nearly $40 million appropriated for two buildings was used for one new facility of comparable size.

The state architect and the CMSI proceeded with this plan, and in February 1994, the plan was submitted for review to the Public Works Board, as required. With a complete description of how the old Armory and Ahmanson buildings were to be replaced by a new and expanded museum facility, the Public Works Board approved this project.

Along with the construction of a new and enlarged museum facility, the CMSI had proposed that the area of the Exposition Park housing the Armory Building and the IMAX Theater be considered for the site of a new elementary school. This proposal suggested that the Los Angeles

Unified School District, in collaboration with the CMSI and the University of Southern California, be responsible for the design, construction, and operation of this school. The project, as it was approved, also called for the demolition of the Taper Hall of Economics, a building that had been constructed approximately 10 years ago to make room for an expanded new museum facility.

Field Act Standards and Reconstruction of the CMSI Buildings



Legislative Counsel: "Field Act Standards do not apply."

The state architect recommended that the CMSI employ the more restrictive Field Act codes as the design standards for the CMSI project. The CMSI agreed with the DSA's recommendation and approved the use of the more restrictive codes. However, according to an opinion of the Legislative Counsel, the building standards of the Field Act do not apply to the construction of the new museum facility at the CMSI, and instead, the building standards under the California State Building Standards Code should apply.

The state architect does not have the authority to apply the building standards under the Field Act to the construction of the new museum facility at the CMSI. However, the state architect may recommend the application of the Field Act standards, although this recommendation is advisory in nature. To provide the CMSI with a recommendation, the DSA considered using three different building codes. First, the DSA considered the California Building Standards Code, which is the normal code governing the design and construction of all state buildings. The second code it considered was the Field Act, which is a more restrictive code that governs the design and construction of all public school buildings. According to the state architect, the Field Act increases the level of safety of design and construction standards as compared to the California Building Standards Codes and will generally cause more change to the historical elements of a building. Last, the DSA considered the California Historical Building Code, which is a code that governs historic structures. According to the state architect, this code will generally cause less change to the historical elements of a building.

After considering these three codes, the state architect recommended to the CMSI that it use the Field Act as the design standards for the CMSI project. According to the state architect, the Field Act was recommended because, although the CMSI is not a public school, the CMSI is routinely used in the curriculum of hundreds of public schools as an “off campus” learning center for more than 1,000 children every school day. Therefore, the state architect believed that it was appropriate to apply the higher than normal code safety standards of the Field Act to the CMSI project.

As a result, in a letter to the design architect dated September 1992, the state architect directed that the design of all new CMSI buildings will use the Field Act standards. A letter dated March 1994 from the executive director of the CMSI to the state architect indicates that the President of the Board of Directors and the executive director were in full agreement with the state architect’s recommendation to design the new building using the Field Act standards. Consequently, the design architect used the Field Act standards when it developed the estimated costs to renovate the Armory and Ahmanson buildings in comparison with the costs to replace the Ahmanson building with a new larger building.

To determine the propriety of applying the Field Act standards to the CMSI project, we requested a legal opinion from the Legislative Counsel. The Legislative Counsel found that, for the purposes of the Field Act, the CMSI buildings are not school buildings and are, therefore, not subject to the Field Act standards. The primary purpose of the new museum facility is to offer a museum of science and industry for the general benefit and education of the public. Consequently, while pupils may visit the building as part of their school day, any educational use by the pupils is incidental to the primary purpose of the building. As a result, the Field Act does not apply to the CMSI buildings and, instead, the California State Building Standards Code governs the CMSI project.

Based on a 1993 comparison of the estimated cost to replace the Armory and Ahmanson buildings with the estimated cost to renovate the two buildings, the DSA recommended that the CMSI proceed to construct a new

expanded museum facility. The cost estimates are based on the application of the Field Act standards, which, as we discussed above, should not have been applied to the Armory and Ahmanson buildings. However, aside from that, the DSA took the necessary steps to obtain a cost comparison of reconstructing or renovating the buildings.

The DSA relied on a cost comparison prepared by an architectural consultant in March 1993. The architectural firm estimated the costs to renovate the Armory and Ahmanson buildings at approximately $36.5 million. However, the estimated cost to replace both buildings with an expanded museum facility was approximately $32.9 million. The DSA recommended the replacement option, which is estimated to cost less than renovating the buildings.

In 1991, the DSA had used a consultant to prepare a structural investigation and report of the Armory and Ahmanson buildings. The consultant estimated the costs associated with the structural retrofitting of the Armory and Ahmanson buildings at approximately $8.4 million. However, the consultant qualified this estimate, noting that the calculations and the recommended modifications were preliminary in nature and should be treated accordingly. Furthermore, our cursory comparison of this estimate with the March 1993 estimate confirms that the March 1993 estimate was much more comprehensive. The March 1993 estimate included the costs associated with architectural, mechanical, electrical, plumbing, handicap accessibility, heating, ventilation, air conditioning, museum planning layout, and other costs that make the buildings habitable. The 1991 estimate did not address all of these costs.

The DSA Consulted With the Required Historical Boards

We have concluded that, as required, the state architect and the CMSI consulted with the State Historic Preservation Officer (SHPO) and the State Historic Building Safety Board (historical board) before submitting the budget package for the new museum facility to the Department of Finance.

Various state laws require that state agencies consult with the SHPO and the historical board before proposing to demolish a building designated as historic. The SHPO determined that the Ahmanson building is a qualified historical building since it is eligible for listing on the National Register of Historic Places.

Early in the planning processes, the Public Resources Code, Section 5024.5, requires state agencies to first give notice and a summary of the proposed action before altering the original or significant historical features or fabric of a building, or before transferring, relocating, or demolishing historical resources on the master list maintained by the SHPO. The SHPO has 30 days after receipt of the notice and summary for review and comment. Similarly, Section 8878.50(b) of the Government Code requires that if a state building or facility is designated as a historic building, the state architect consult with the SHPO before proposing to demolish the building or facility. The State Administrative Manual requires the state agency that owns the historic building to notify the SHPO before it submits its capital outlay budget package for the project to the Department of Finance. Finally, the Health and Safety Code, Section 18961, requires that all state agencies acting or making decisions on variances or appeals that affect historical buildings consult with the historical board to obtain its review.

Our review of correspondence and interviews with staff at the Office of Historic Preservation and the DSA disclosed that the acting SHPO first requested an opportunity to comment on an early draft of the master plan for Exposition Park on August 12, 1992. On January 4, 1993, the CMSI sent a letter to the acting SHPO to confirm a meeting and to "formally notify the State Office of Historic Preservation that pursuant to Section 5024.5 of the Public Resources Code, this meeting will serve as the initiation of the consultation process for the Exposition Park Master Plan and any changes to structures within the Park, including, but not limited to, the Armory and Ahmanson buildings." In our view, this event marked the beginning of the consultation process between the project sponsors, that is, the state architect, the CMSI, and the SHPO.

Consultation on this project continued when, in May 1993, the SHPO and the historical board were given 45 days to review and comment on a copy of the draft Environmental Impact Report (EIR) for the CMSI. The draft EIR addressed both the general impact of the master planning study and the specific impact of individual development projects, especially the demolition and reconstruction of the new museum facility. Correspondence from the SHPO, dated September 1993, indicated that the DSA and the CMSI responded in part to concerns raised by the SHPO by adopting some modifications that partially preserved the Ahmanson Building as compared with the original proposal. However, correspondence from the historical board indicated dissatisfaction.

In August 1993, the DSA submitted the budget package for the new museum facility to the Department of Finance. Subsequently, in February 1994, the DSA submitted the preliminary plans for Phase I of the new museum facility to the Public Works Board for its approval. Phase 1 included incorporating the renovated historic facade of the Ahmanson building. The Public Works Board decided in the February meeting to hold over a decision regarding the preliminary plans until its March meeting to allow the historical board and the SHPO additional time to discuss their concerns with the DSA and the CMSI. According to the minutes of the Public Works Board meeting for March 4, 1994, it was satisfied that discussions or "consultation" between the various interest groups had occurred, and it approved the preliminary plans by a vote of 3 to 0.

Since the March 1994 Public Works Board meeting, we found evidence that the CMSI and the DSA have continued to consult with the SHPO. In a letter dated May 16, 1994, the SHPO continues to urge the CMSI to retain other portions of the Ahmanson building. However, the SHPO did state that upon receipt and review of detailed drawings documenting the proposed changes in the final design, she was prepared to conclude her consultation on this project.

1990 Seismic Bond Act
Expenditures Were Allowable

As part of our review of expenditures, we tested whether 1990 seismic bond act funds were used to fund the planning or design of exhibits. We found that the act's funds were used to pay the CMSI's architect to integrate into the new museum facility exhibits that had been previously designed using other funds. According to the state architect, these expenditures were a necessary and integral part of the new museum facility.

The 1990 seismic bond act, Section 8878.55(a)(1), specifies that appropriations made from these funds be used to finance the costs of retrofitting, reconstructing, repairing, replacing, or relocating state buildings or facilities that are seismically unsafe or have other safety deficiencies. For these projects, allowable costs include the cost of abating falling hazards; the cost of engineering, architectural, financial, and legal services; the cost of preparing plans, specifications, studies, surveys, and estimates; administrative expenses; the cost of land acquisition for replacement projects, direct construction, or rehabilitation; and the costs necessary or incidental to the project.

We reviewed the expenditures approved by the DSA related to the six contracts the DSA awarded between June 1991 and October 1994 for the CMSI project. The appendix presents a general description of the types of services the DSA acquired through these contracts using the 1990 seismic bond act funds. We found that the DSA approved expenditures for such items as the design and development of food service programming, architectural and engineering services to incorporate the exhibit design elements into the new museum facility, the design and development of the new museum security system, and the architectural and engineering services to integrate security and telecommunication into the new museum. According to the state architect, the use of the 1990 seismic bond act funds for these types of expenditures was appropriate since these expenditures were necessary and an integral part of the new museum facility. Also, the state architect stated that the funds were used merely to incorporate the elements of the exhibits and the food services into the new museum facility and were not used for the actual design and development of the exhibits. Similarly, the funds were also used for the planning of the programmatic needs of

the basic security and voice communication system so they also may be properly incorporated into the new museum facility.

Conclusion

To comply with the 1990 seismic bond act, the DSA developed a five-step process for determining which of the State's buildings or facilities should be considered top priority for correction of seismic and related fire and life safety hazards. The DSA's evaluation placed the Armory and Ahmanson buildings of the CMSI in the top 15 of 400 state buildings that exhibit the highest potential risk from a damaging earthquake. During one step of its evaluation, which requires that the DSA perform a comparative analysis of the average attendance for the various state buildings, the DSA chose to use a method that inflated attendance figures. According to the state architect, this method provided more consistent information by which to compare the relative populations at risk for the various buildings.

Even though the current project will replace the Ahmanson building and leave the Armory building, legislation indicated that funds appropriated for this project should be used for both the Ahmanson and Armory buildings. However, according to the state architect, it was appropriate to use the funds for construction related only to the Ahmanson building because the DSA was replacing the two original CMSI buildings with one building equal to the two smaller ones.

Additionally, the state architect recommended that the CMSI employ the more restrictive Field Act codes as the design standard for the CMSI project. However, according to an opinion of the Legislative Counsel, the building standards of the Field Act do not apply. Also, based on a 1993 comparison of the estimated cost to replace the Armory and Ahmanson buildings with the estimated cost to renovate the two buildings, the DSA recommended that the CMSI proceed to construct an expanded Ahmanson building, based on a lower cost. As required, the CMSI consulted with two historical boards before submitting the budget package for the new museum facility to the

Department of Finance. Finally, the DSA used the 1990 seismic bond act funds to pay for expenditures that, according to the state architect, were expenditures that were a necessary and integral part of the new museum facility.

We conducted this review under the authority vested in the state auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope of this report.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: March 30, 1995

Staff: Steve Hendrickson, Audit Principal
Denise L. Vose, CPA
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Appendix

Funding Sources for Architectural and Engineering Expenditures for the Demolition of the Ahmanson Building and Construction of the New Museum Facility

Description of Expenditure	Amount of Contract or Amendment and Its Related Funding Source	
	Seismic Bond Act of 1990	Exposition Park Improvement Fund
Preparation of complete architectural drawings for all phases of design and development	$2,576,300	$ 486,118
Design and development of food service programming for the new museum facility	29,700	
Design and development of energy saving technology	25,000	
Design and development of the new museum's security and telecomunications systems	14,000	
Architectural, engineering, and consulting services to accommodate the retention of the north wall and roof elements	147,476	
Food service design services and consultation on relocating the McDonalds restaurant to the west side of the first floor of the museum	73,388	
Architectural and engineering services for a thermal energy storage system	59,219	
Architectural and engineering		

Description of Expenditure	Amount of Contract or Amendment and Its Related Funding Source	
	Seismic Bond Act of 1990	Exposition Park Improvement Fund
services for off-site electrical improvements in coordination with the local utility company	24,550	
Analyze and design parking facilities, landscaping, lighting, etc. for Exposition Park		249,860
Architectural and engineering services to integrate the security and telecommunication elements into the new museum facility	43,200	
Architectural and engineering services to incorporate the exhibit design elements into the new museum facility	144,000	
Structural and architectural coordination required to integrate the Hoberman Art Piece into the museum atrium space	12,000	
Geological survey of the subsurface soil on the new museum site	21,000	
Environmental impact report and traffic study for the Exposition Park as a whole	306,040	
Development of the master plan, including the conceptual exhibit program, for CMSI		559,465
Boundary survey and mapping of the new museum	110,100	
Consultant project managing services	243,900	
Total	**$3,829,873**	**$1,295,443**