

# Digest of a Performance Audit of Construction Management by Political Subdivisions

This audit addresses several issues dealing with construction of buildings by political subdivisions. We were first asked to study construction management (CM) as a specific project delivery system because of concerns expressed by legislators that the use of CM had caused problems in some projects. Concerns included whether CM is a cost beneficial project delivery system and whether CM lacks necessary controls, thereby increasing costs to entities using it. Subsequently, we were asked to review the issue of why cities and counties some- times choose to fund construction with lease revenue bonds instead of general obligation bonds.

Our findings are summarized as follows:

**Choosing CM Needs Careful Assessment of Options.** Public officials in counties and school districts do not always give adequate consideration to whether to use Construction Management (CM) as a project delivery system (as opposed to using a general contractor, for example). Cost should not be the only factor considered. Early consideration of factors such as project complexity and owner ability or willingness to devote time to a project can help political subdivisions choose the appropriate project delivery system for their needs. Some of the projects we reviewed did not involve sufficient initial consideration of the construction options available to an owner and several had problems in contracting and ongoing project management. Additionally, some owners did not follow procurement procedures when going through the initial stages of a project. Public entities need to adhere to competitive bidding and proposal practices.

- We recommend that political subdivisions perform adequate initial analysis to choose the most appropriate project delivery system for their needs; we recommend that political subdivisions comply with all relevant procurement requirements for construction services.

**Well-written Contracts Protect Owners Better.** Once a political subdivision has considered its needs and followed public procurement procedures to obtain an architect and CM (or GC), contracts need to be negotiated and signed. Contracts play an important role in determining the signing parties' rights, risks, and responsibilities in the project to be undertaken and, as such, need to be carefully and fairly written with specific provisions that protect public entities' interests. Our review of several county-level and school district projects found that some contracts inadequately protected the owners' interests. Problems include the use of standard contracts that were developed by architect and builder groups without owner input; the use of contracts that do not specifically address a CM arrangement; and the use of contracts that do not assign the risks equitably between the owner and CM. Some projects experienced problems (e.g., cost overruns, delays in project completion) we associate with the inadequate controls in their contracts. Political

subdivisions need to be aware of the problems that can arise from the use of a poorly written contract.

- We recommend that political subdivisions use construction contracts that are specific to the chosen project delivery system and ensure that owner-protective provisions are included that provide for avenues of recourse if needed.

**Good Project Management Includes Control Points.** As with all major construction projects, a CM project's success depends to some degree on the involvement of the owner in the process along with the use of other control measures. Professional literature on construction management and discussions with some local construction firms provided some guidelines on what owners as well as architects and the project management team should know and do while state law defines inspection requirements during construction. When we compared these selected guidelines to the projects reviewed, we found that management controls were in place to varying degrees. CM project management can improve by more consistent use of selected controls.

- We recommend that political subdivisions using CM ensure that internal staff resources are sufficient and knowledgeable, that they ensure the project architect provides cost and quality control assistance to the owner as needed, that documented team meetings fulfill the intended purpose of cooperation and coordination, and that legal requirements for independent project inspection are met.

**Several Considerations Influence Bonding Decisions.** Of two bonding options available to political subdivisions in Utah for financing building projects, general obligation (GO) bonds are less expensive than lease revenue bonds. Even so, some political subdivisions choose lease revenue bonds when they have the ability to use GO bonds. The decision to use lease revenue bonds is often based more on a reluctance to hold a bond election than on available debt capacity or project characteristics. Where possible, we feel the use of GO bonds should be attempted when financing public projects because they cost less. The information presented in this chapter is intended to assist the Legislature in determining whether the present situation is acceptable or change is needed.

- We recommend that political subdivisions consider financing projects with GO bonds if possible and that the Legislature assess whether any change is needed in present bonding practices.