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Associate Vice Chancellor
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Subject: ***Physics Lab Renovation***
Report 2020-27

The final report for Physics Lab Renovation, Report 2020-27, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

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AUDIT & MANAGEMENT ADVISORY SERVICES

Physics Lab Renovation
Report No. 2020-27
November 2020

FINAL REPORT

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of a Physics Lab Renovation (Lab) project. This review was undertaken at the request of Capital Program Management (CPM) in response to the Lab end-user's (also referred to as the faculty end-user) concerns regarding cost and timeline for this renovation. The objective of our review was to examine select areas of this Lab renovation project to determine whether internal controls were adequate to provide reasonable assurance that activities were compliant with relevant University policies, procedures and good business practices for the areas assessed.

We concluded that internal controls for this Lab renovation project were adequate to provide reasonable assurance that activities were compliant with relevant University policies, procedures, and good business practices for the areas assessed. Based on reviewed contract billings and actual payments, there were no material discrepancies with construction payments and sampled change orders reviewed. While the project was overall managed in accordance with relevant policies, various challenges arose which impacted the timeline for completion and the cost of the project contributing to some dissatisfaction by the faculty end-user.

The approved Capital Improvement Budget for this Lab renovation was approximately $5 million as of January 2018, with a projected completion date of December 2018. The Certificate of Substantial Completion was signed in May 2019 with total actual expenditures of approximately $4.3 million. Analyses of payments show total project expenditures of approximately $4.8 million through September 2019. The total project cost per e-Builder[1] was $5,016,119 as of July 2020, generally at budget despite the challenges faced. Project management appeared to have communicated schedule and costs changes via the status dashboards as well as ad-hoc email correspondence. Project artifacts show total delay pre-construction was approximately 41 weeks.

Although site selection efforts were intended to meet the end-user's requirements, the building's age (constructed in 1963), infrastructure and its currently-occupied status affected the cost and timeline of the project. Also, other construction in the building appeared to have caused noise which affected the performance of sensitive lab equipment. Due to the building's age, future construction and upgrades may also continue to be problematic for this Lab. Site selection was determined by the University in consultation with the architectural firm. CPM stated that they had been attempting to work with the academic units to participate in decision making earlier so that building characteristics that may impact construction can be identified, and has recently been making progress in this area. Early involvement with all concerned parties such as the academic unit and Executive Vice Chancellor of Academic Affairs Office (EVCAA) during faculty recruitment process could be valuable in managing known process issues with budgeting, scheduling and site selection that arise later during design and construction. Also, CPM has proposed to academic leadership to fund and support Facility Condition Assessments and Gap Analyses to proactively identify building design and use characteristics that could impact decision-making on site selection. The assessments are also intended to promote an understanding of the existing capital asset in relation to strategic program planning.

While communication appears to have been generally appropriate for this project, there appeared to have been some gaps in communications to the faculty end-user for this Lab. For future projects, CPM should consider a written matrix of roles/responsibilities at the beginning of the project to document expectations and roles of each party. Supporting comments are described in greater detail in section V. of this report.

[1] CPM's construction project management software and document repository indicated total project cost of $5,016,119 as of July 2020.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of a Physics Lab Renovation (Lab) project as a supplement to the approved audit plan for Fiscal Year 2019-20. This review was undertaken at the request of CPM in response to the Lab's end-user's (also referred to as the faculty end-user) concerns regarding cost and timeline for this renovation. This report summarizes the results of our review.

The UC San Diego (UCSD) Department of Physics was established in 1960 as the first new department of the UCSD campus. Since then, it has developed a strong faculty and student body with diversified interests in areas such as physics of elementary particles, quantum liquids and superconductivity, and solid-state and statistical physics. The wide range of research interests in the department is reflected in its association with several campus research institutes and centers: The Center for Astrophysics and Space Science (CASS), the Center for Magnetic Recording Research (CMRR), the Institute for Nonlinear Science (INLS), and the Center for Nanoscience (CAN), among others.

Today, the department is seen as a center of scientific discovery and an agent of change. A key to the department's success has been its ability to recruit dynamic, award-winning faculty, thus ensuring that its nationally ranked research and educational programs will continue to grow in excellence with an infusion of new ideas and new energy. The Lab renovation that is the subject of this review is intended to help advance this critical research and education mission of the department.

The Lab, which is the subject of this review was the second such laboratory renovated for a particular faculty recruit (hereto after referred to as the faculty end-user). The nature of this faculty end-user's field of study requires stringent technological and environmental conditions for research in addition to higher energy and information technology needs than the average laboratory on campus. Our understanding is that although the previous laboratory renovation met the faculty end-user's requirements (per the original specifications provided by the faculty end-user), it did not ultimately meet the end-user's needs, which led to Academic Affairs' approval of this second Lab renovation. The consultant design team selected for this project was experienced and reputable for their work on similar labs at other campuses. Feasibility studies, space assessments, and budgetary assessments began in early 2017. Construction started during the latter half of 2018 and continued into 2019.

CPM's approved construction budget for this project was approximately $5 million as of January 2018. The lab renovation was anticipated to be completed by November 2018, but the complexities in meeting the project's planned specifications caused the project's completion timeline to be pushed into spring 2019. Substantial completion was met in May 2019; however, contractors were still working to rectify some environmental issues within the Lab because of the stringent environmental requirements during this review and as a result, we reviewed operating ledger data through September 2019.

We identified several key stakeholders involved in this project. CPM provided the primary means of coordination, provided substantial input on the budgetary assessments, and facilitated the design and construction process. The faculty end-user provided the initial specifications for the Lab space, selected the Lab site and provided user feedback after construction was substantially complete. The faculty end-user also provided substantial input on the selection of the consultant design team. The Executive Vice Chancellor of Academic Affairs Office (EVCAA) provided the project with budgetary analyses, insight into other concurrent campus renovations for faculty, and additional input regarding

site selection. The EVCAA office's contribution also includes certain approvals during the recruiting process and making financial and Lab construction commitments to faculty. The Physics department provided facilities personnel for insight relating to the site selected as well as logistical support during the construction phase. Our understanding is that the Facilities Director for Urey Hall was designated as the liaison between the faculty end-user and CPM. The consultant design team worked extensively with the faculty end-user to provide design documentation to meet the Lab specifications and building code requirements and provided additional technical support post-construction. The prime contractor coordinated with subcontractors and UCSD personnel during the construction process to execute the design as documented.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to examine select areas of this Lab renovation project to determine whether internal controls were adequate to provide reasonable assurance that activities were compliant with relevant University policies, procedures and good business practices for the areas assessed. The scope of our review included project communication and oversight, bid process, construction payments and change orders. The review also considered if challenges encountered during construction presented opportunities for future improvement. In order to achieve our objective, we performed the following:

- Reviewed the following documentation:
  - Status update dashboards submitted from the project's management to CPM and other stakeholders for the project, spanning from spring 2017 to spring 2019 (issuing of a Certificate of Substantial Completion), including analyses derived from this documentation;
  - The approved Construction Improvement Budget and project schedule;
  - The operating ledgers for the plant accounts involved with this construction and analyzed payment data for the period of January 2017 through September 2019);
  - Bid process documentation and results;
  - Select contracts of the contractors involved;
  - General and Supplementary Conditions for construction contracts per the UC Facilities Manual;
  - Change orders and the related Cost Proposal/Field Orders (CPFO's) comprising them; and
  - Sample email correspondence of issues that were encountered during construction and how stakeholders handled those issues.
- Interviewed the following stakeholders involved in the renovation:
  - CPM senior management;
  - Physics department senior management and additional Physics personnel involved with Lab logistics;
  - The Director of Space Planning for the Academic Affairs office; and
  - The CPM Program Manager and the third-party Project Manager assigned to this project;
- Evaluated the general responsiveness and adherence of the project's contractors to their contractual communication obligations; and
- Tested significant construction payments, change orders, and reviewed them for accuracy and adherence to the General Conditions and appropriate processes.

IV. CONCLUSION

Based on our review, we concluded that internal controls for this Lab renovation project were adequate to provide reasonable assurance that activities were compliant with relevant University policies, procedures, and good business practices for the areas assessed. Based on reviewed contract billings and actual payments, there were no material discrepancies with construction payments and sampled change orders reviewed. While the project was overall managed in accordance with relevant policies, various challenges arose which impacted the timeline for completion and the cost of the project contributing to some dissatisfaction by the faculty end-user.

The approved Capital Improvement Budget for this Lab renovation was approximately $5 million as of January 2018, with a projected completion date of December 2018. The Certificate of Substantial Completion was signed in May 2019 with total actual expenditures of approximately $4.3 million. Analyses of payments from the operating ledger show contractor expenditures of approximately $4.8 million through September 2019. The total project cost per e-Builder was $5,016,119 as of July 20, 2020, generally at budget despite the challenges faced.

Table 1 Summary of Project Costs

	Total Costs Through Substantial Completion	Total Costs Through September 2019	Total Costs[1]
Project Costs	$4,336,529	$4,786,083	$5,016,119

1 Project cost in e-Builder as of 7/20/2020

Redesigns related to environmental equipment, unforeseen conditions and the attempts to mitigate these factors resulted in some change orders (included in the cost figures above), which were funded through the contingency portion of the project budget. We noted that project management appeared to have communicated schedule and costs changes via the status dashboards as well as ad-hoc email correspondence. Project artifacts show total delay pre-construction was approximately 41 weeks. Examples of significant items impacting schedule prior to construction as noted by the project management team included: A preliminary budget by the design consultant that was not in alignment with CPM budget expectations; the design consultant delivered a design schedule that had an eight-week concept validation period which was not forecasted in the initial CPM schedule; schematic design cost reconciliation and decision making; and delays in review and approval of final plans (i.e., contractor bidding and sub bidding documents among others).

Although site selection efforts were intended to meet the end-user's requirements, the building's age (constructed in 1963), infrastructure and its currently-occupied status affected the cost and timeline of the project. Other construction in the building appeared to have caused noise which affected the performance of some sensitive lab equipment, and the time to solve these issues impacted the construction timeline. Due to the building's age, future construction and upgrades may also continue to be problematic for this Lab. Site selection was determined by the University in consultation with the architectural firm. CPM stated that they had been attempting to work with academic units to participate in decision making earlier so that building characteristics that may impact construction can be identified, and has recently been making progress in this area. Early involvement by CPM and other concerned parties such as the academic unit and EVCAA during faculty recruitment process would enable the unit to provide valuable input to departments and other stakeholders as the University makes construction project commitments to faculty, such as physical and environmental factors associated with sites being considered and managing stakeholder expectations with regard to budgeting, scheduling and site selection issues that might arise later during design and construction. In

addition, CPM has proposed to academic leadership to fund and support Facility Condition Assessments and Gap Analyses to proactively identify building design and use characteristics that could impact the department's decision-making on site selection. These assessments are also intended to promote an understanding of the existing capital asset in relation to strategic program planning.

While communication appears to have been generally appropriate for this project, there appeared to have been some gaps in communications to the faculty end-user for this Lab. It does not appear that there was a clear requirement in the project management process to manage budgetary expectations with the faculty end-user and communicate budgetary changes; in particular, because the project was funded by EVCAA. The CPM third-party project manager was discouraged from direct communication with the faculty end-user; instead, the Facilities Director for Urey Hall was expected to facilitate communication between Physics department and CPM. The Physics department stated the department did not send specific updates on the budget to the faculty end-user; however, there were conversations during phone conferences. In addition, all the documents were available through an online system (Bluebeam) for all to see, including by the faculty end-user. Also, the pressure to build the Lab to specification might have contributed to a reluctance to discuss some key cost increases and the rationale behind them with the faculty end-user of the project. For future projects, CPM should consider a written matrix of roles/responsibilities at the beginning of the project to document expectations and roles of each party.

V. SUPPORTING COMMENTS

Project Communications

The construction project's communications between key stakeholders were reviewed to determine whether there were obstacles that could be better managed in order to facilitate the renovation process. The following groups of stakeholders were identified, and relevant correspondence reviewed in order to determine whether there was effective communication during the project. While the project communication and oversight appear to have been generally adequate, there appeared to have been some gaps with certain aspects of communication, as discussed below.

CPM (Project Management)

Review of project artifacts indicated CPM appeared to have effectively communicated relevant project information via dashboard-type reports distributed to the stakeholders on a monthly basis in addition to ad-hoc email correspondence in response to questions from senior management and other stakeholders. This was in addition to contractually obligated meetings conducted by the design team during the design phase, as well as contractually obligated bi-weekly meetings conducted by the prime contractor. CPM's project management was mainly undertaken by third-party project management contractors, as is typical for a major capital project on campus. The third-party project manager kept the various stakeholders apprised of the cost and schedule changes, and was able to provide analysis and documentation of the instances when budgetary milestones and key cost drivers were presented to the other stakeholders. For example, it was noted that there appeared to be adequate recognition of processes or construction elements that required a long lead time. Also, the environmental conditions for the finished Lab required some HVAC equipment to be customized well in advance of construction, and it was noted that this point was adequately reinforced in budgetary and status communications to the rest of the stakeholders. Further, the project tracking budget was communicated on the monthly status dashboard and when the Certificate

of Substantial Completion was signed during May 2019.

A review of certain email correspondence for project management suggested that there was some reluctance to discuss some key cost increases and the rationale behind them with the faculty end-user of the project. Project management's budgetary concerns revolved around the circumstance that this was the second Lab renovation for this particular end-user, and a concern held by project management was that asking the faculty end-user to relax requirements through value-engineering measures or otherwise carried the risk of the second Lab renovation once again not sufficiently meeting the requirements of the end-user. Per project protocol, the CPM third-party project manager was discouraged from direct communication with the faculty end-user; however, the designated liaison would facilitate communication between Physics department, the faculty end-user and CPM. The Physics department stated the department did not send specific updates on the budget to the faculty end-user but there were conversations during phone conferences and all the documents were available through an online repository (Bluebeam[2]) for all to see, including by the faculty end-user. However, our understanding of the process of updating stakeholders was that there was not a clear requirement to inform the faculty end-user of budgetary changes since the faculty end-user was not the source of funding for the project. However, it was noted that CPM held bi-weekly phone calls with the Physics department and the EVCAA office. For future projects, CPM should consider a written matrix of roles/responsibilities at the beginning of the project agreed upon by all parties, including details such as how budgetary information will be communicated and confirmed with all stakeholders, including faculty end-users.

We also judgmentally selected some concerns expressed by the faculty end-user via email that appeared to have an impact on the budget and/or timeline of the project to assess for adequacy and quality of communication, and resolution of the issues based on documented evidence. We concluded the CPM and contractors generally responded to the issues in a reasonable manner.

Executive Vice Chancellor of Academic Affairs (EVCAA) and Division of Physical Sciences
The EVCAA office became involved early in the project due to the project's magnitude and because this was the second Lab renovation for the faculty end-user. The EVCAA office was also overseeing multiple other faculty-lab construction projects on campus at the same time. The primary advantage of engaging this office as a stakeholder in the project with an oversight role is the office's visibility into other construction projects with other faculty. The EVCAA office's input also includes insight into financial and Lab construction commitments to faculty during the recruiting process. Much of the EVCAA's oversight role on this construction project was performed by the Director of Space Planning. The Assistant Dean of Physical Sciences was the representative for the division. We noted that personnel from the EVCCA office were involved with the project as early as 2017, when the project was still undergoing feasibility and space assessment studies. The office provided oversight over the project's budget changes, and provided a secondary analysis of the budgetary changes over time by way of the dashboards presented by the project manager. It was the EVCAA office's perception that the price and schedule changes toward the beginning of the project were drastic enough to warrant their own office's analyses of budgetary and schedule changes over time. Additionally, the office also performed some oversight and secondary analyses over the project's change orders. The EVCAA Director of Space Planning and the Assistant Dean of Physical Sciences

[2] Design and construction project management software.

participated in the design team's contractually obligated design meetings with the CPM and Physics Department. Email correspondence also indicated that the Assistant Dean of Physical Sciences provided some liaising between key stakeholders and the faculty end-user during the construction process to resolve logistical issues that arose.

Physics Department

The Physics department had been involved with the project since 2017. In addition to their facilities' managers roles in maintaining the operation of the Lab once finished, they had also been involved in some logistics during the actual construction. A representative, the Facilities Director for Urey Hall where the lab was constructed, had been instructed to keep the faculty end-user updated in regards to status updates, and project management had been asked to keep Physics facilities management copied on email correspondence. It is our understanding that the department chair at the time had repeatedly asked the administration to consider space in the then being designed and constructed Tata Hall for this lab renovation. Review of sample email correspondence show that Physics facilities management was copied on the emails.

We noted that there were significant milestones that Physics facilities management did not feel they were adequately made aware of during the construction, and it was expressed that they perceived a slight disconnect from the construction process. For example, toward the end of construction, to the best of the Physics department former chair's recollection, no Notice of Completion had been formally communicated to his department, but the faculty end-user proceeded with moving into the Lab space. This was perceived as a gap in communication at the time, however we noted that CPM had not issued a Notice of Completion, therefore the Lab was not ready for the faculty member to move in. In addition, per review of email correspondence leading up to the January 2018 approval of the Capital Improvement Budget for this project, it appears that the budget increase was communicated to project stakeholders, although the faculty end-user was not directly emailed. While the faculty end-user had near-unfettered access to the design and construction teams, the role of the department was unclear as to the extent to which they were responsible for updating the end-user with project budgetary and scheduling information. However, a Physics department staff member stated that the faculty end-user did have access to budgetary and design documents via an online file-sharing system and it was therefore presumed that the faculty end-user had seen the budgetary information.

Faculty End-user

Our understanding of the faculty end-user's communications role for this project was mainly to provide the criteria requirements for the design and construction of the Lab, as well as provide input on the feasibility and effects that the implemented design or construction solutions would have on research once the Lab was operating. Project management stated that these communication obligations by the faculty end-user had been met. During our review, it was noted that the faculty end-user appeared to be deeply involved with the design and construction processes, and was noted as having been present at a significant portion of the design and construction meetings, as well as being heavily involved with email correspondence between project managers and contractors. However, this level of involvement appeared reasonable due to the issues with this faculty end-user's previous Lab space. We noted instances of email correspondence that showed faculty end-user frustration with cost increases in the project, but some of these examples also appeared to may have hindered effective communications with some stakeholders, as was noted during our interviews. The faculty end-

user declined our request for an interview for this project, although some concerns were relayed via email.

Contractors

We reviewed the contractual obligations of select contractors involved and noted that there was significant documentary evidence of the contractually obligated meetings, which included minutes along with documentation of the individuals present who included the CPM third-party project manager and other stakeholders. However, it was emphasized that the out-of-state consultant design team presented some challenges that would not have been encountered had the design team been a local firm. It was also noted that the consultant design team communicated with the faculty end-user directly frequently, and this may have resulted in a perception of a lack of checks and balances to the other stakeholders on decisions made. In general, it appeared that the contractors involved largely met their communications obligations for this Lab renovation.

Site Selection

Based on discussions with various stakeholders, site selection efforts were intended to meet the end-user's requirements and preferences with regards to both research and career goals. The selected building's age (constructed in 1963), infrastructure and its currently-occupied status seemed to have affected the cost and timeline of the project. In addition, other construction in the same building appeared to have caused general noise which affected performance of the sensitive lab equipment. A review of sampled change orders appears to support challenges with issues related to HVAC, acoustics, and steam generator installation, among others. Future constructions and upgrades to the building may also continue to be problematic for the Lab. Site selection was determined by the University in consultation with the architectural firm. CPM stated that they had been attempting to work with academic units to participate in decision making earlier so that building characteristics that may impact construction can be identified, and has recently been making progress in this area. Early involvement by CPM and other concerned parties such as the academic unit and EVCAA during the faculty recruitment process would enable the unit to provide valuable input to departments and other stakeholders as the University makes construction project commitments to faculty, such as physical and environmental factors associated with sites being considered and managing stakeholder expectations with regard to budgeting, scheduling and site selection issues that might arise later during design and construction. In addition, CPM has proposed to academic leadership to fund and support Facility Condition Assessments and Gap Analyses to proactively identify building design and use characteristics that could impact the department's decision-making on site selection. These assessments are also intended to promote an understanding of the existing capital asset in relation to strategic program planning.

Project Schedule

Although the project overran its schedule, it was noted that project management appeared to have timely communicated schedule impacts via both the status dashboards as well as ad-hoc email correspondence. Project management was generally cognizant of construction schedule items that required significant lead times due to customizations that were required to operate in the selected building site, but despite these planning efforts, there were still delays. Project artifacts show total delay pre-construction was approximately 41 weeks. Examples of significant items impacting schedule prior to construction as noted by the project management then included:

- A preliminary budget assessed by the consultant design team that was not in alignment with CPM budget expectations and required a few months of vetting, added 13 weeks to schedule.
- The consultant design team delivered a design schedule that had an eight-week concept validation period, which was not forecasted in the initial CPM schedule. Also, there were several issues to investigate prior to proceeding with design (building HVAC trends, electrical system trends, among other items. Further delays were difficulties with scheduling a project kickoff meeting due to the consultant design team being out of town.
- Schematic design cost reconciliation and decision making (to resolve cost estimates) added five weeks.
- Delays in issuance, review and approval of final plans (i.e., contractor bidding and sub bidding documents, among other items) added six weeks to schedule.

We noted that those impacts were communicated to project stakeholders throughout the process.

Fiscal Management

We reviewed the construction project's fiscal processes to determine their adherence to the General and Supplementary Conditions for construction contracts as stipulated by the University of California Facilities Manual. We also reviewed construction payments to obtain reasonable assurance that discrepancies did not exist between the contract billings and actual payments. Payments to the consultant design team and the prime contractor were reviewed from January 2017 to September 2019 via the construction project's operating ledgers, and the check amounts were vouched to the supporting documentation found in e-Builder. For the reviewed payments, only minor insignificant discrepancies were found and there were no duplicate payments or other material discrepancies noted.

Analyses of payments from the operating ledger show construction payments through September 2019 were within the allocated project budget. Redesigns related to environmental equipment, unforeseen conditions and the attempts to mitigate these factors resulted in some change orders which were funded through the contingency portion of the project budget.

Finally, we performed a general review of change orders to obtain an understanding of the change order pricing components that affected the overall value of the contract, to obtain reasonable assurance that change orders were priced in accordance with the contract documents, and to confirm material discrepancies did not exist in the pricing methodologies or the pricing data. The typical procedure is for change orders to be reviewed by the Program Manager after being negotiated by the Project Manager; however, it was noted that the CPFO's[3] for these change orders were reviewed by the Senior Director of Project Management due to the sensitivity of this particular Lab renovation. A sample of change orders were selected, and the CPFO's that comprised the selected change orders were reviewed for their adherence to the General Conditions and accuracy. CPFO's and the associated change orders relating to contractual increases were excluded from the sample. The population of these CPFO's increased the value of the contract by approximately $500,000 and consisted of those approved by June 2019. Table 2 below depicts details of those CPFO's.

[3] Cost Proposal/Field Order is a change order subunit consisting of a discrete changed item, which, when approved and accepted by the contractor, comprise a change order.

Table 2: Change Orders

CPFO Reason(1)	Total(2)	Count
Agency-directed	$3,003	3
Client-directed	$35,979	8
Error/Omission	$81,595	21
Project manager-directed(3)	$103,604	13
Unforeseen conditions	$286,199	33
Total:	$510,281	78

(1) We placed reliance on the project manager's reason code assignments to determine the justification of each CPFO in this analysis.
(2) Amount depicts totals of CPFO's approved by June 2019.
(3) Approximately $48,000 of $103,604 was for a single CPFO for cabling installation that was initially out of scope for the prime contractor but was later scoped-in for the purposes of maintaining schedule.

During this review, no unexplained discrepancies were noted in the CPFO's sampled.