



**CALIFORNIA STATE UNIVERSITY, STANISLAUS  
PROFESSIONAL SCHOOLS BUILDING**

Final Report

November 2, 1999

**California State University - Stanislaus**  
**Turlock, California**  
**PROFESSIONAL SCHOOLS BUILDING**  
**ST-462**

**GOAL**

The goal of KPMG, LLP's review of the California State University - Stanislaus (CSUST) - Professional Schools Building Project was to evaluate the following areas of project delivery:

**CHANGE ORDERS**  
**PROJECT MANAGEMENT SERVICES**  
**CONTRACTOR BILLINGS**  
**CONTRACTING COMPLIANCE**  
**LIQUIDATED DAMAGES**  
**PROJECT ADMINISTRATION PROCESS COMPLIANCE**  
**VERIFICATION OF MAJOR EQUIPMENT AND COMPONENTS**  
**CLOSEOUT DOCUMENTS**

**INTRODUCTION**

The purpose of this review is to provide the Trustees of California State University with assurance that appropriate procedures and controls are applied to the construction process as identified in the contract documents issued for the Professional Schools Building Project at the Stanislaus campus. Based on our 1998 work on the University's behalf, the Office of the University Auditor revised the scope of the 1999 engagement to include, among other changes, submittal compliance verification for a sampling of major equipment items and building components.

KPMG's work was conducted by reviewing project construction documents between February 26, 1999, and July 30, 1999. The review included:

- Interviews with personnel from the Office of the Chancellor, Division of Capital Planning, Design and Construction (CPD&C), in Los Alamitos and Long Beach.
- Discussions with members of the Stanislaus campus facility management (CFM)
- Reviews of project files at CPD&C's office
- Reviews of project files at Lewis C. Nelson and Sons, Inc. (Contractor) office in Selma, California
- Sample auditing of documents for cost and process compliance

This review is based on the information contained within the project files at both the Owner's (for the purposes of this report, Owner shall mean both CSUST and CPD&C) and Contractor's offices. Physical inspections and field verifications were not conducted as a part of this review and were specifically excluded from KPMG's work.

### **CONSTRUCTION PROJECT DESCRIPTION**

The Professional Schools project consisted of the construction of two new buildings. The North and South Wings are a two and three-story concrete structural frame building with post-tensioned concrete slab containing approximately 92,000 square feet. The Lecture Hall is a one-story wood-frame building of approximately 5,100 square feet.

Construction documents and specifications were prepared by Fisher-Friedman Associates. The pre-bid construction estimate was \$13,500,000. The Bid Proposal Form issued by California State University included requirements for five deductive Construction Bid Alternates relating to storm retention and landscaping in various areas. The bid form included provisions for liquidated damages in the amount of \$2,000 per day.

The project bid date was August 22, 1996. There were eight bidders, and Lewis C. Nelson & Sons, Inc. was the low bidder at \$12,338,000 (base bid). Lewis C. Nelson (Contractor) was awarded the project and a Contract for Construction was executed on September 5, 1996. A Notice of Completion (Construction Mgmt. Form 702.02) was recorded on December 4, 1998 and indicated a completion date of November 30, 1998.

### **CHANGE ORDERS**

#### *Findings:*

The original agreement entered into by the Owner and Contractor was based on a lump sum amount. KPMG's review included reconciling change orders issued by the Owner to the change orders issued to subcontractors by the Contractor. The Owner had methods to track requests for, causes of, associated costs, and final dispositions of change orders. At the time of this review, the Professional Schools Building project had approved Change Orders through Number 32 totaling \$702,983. This represents an additional 5.7% in project costs beyond the original construction contract amount of \$12,338,000.

CPD&C provided reports reflecting total change orders issued and approved. KPMG found that Change Order No. 1 was incorrectly issued in the credit amount of \$1,281, rather than a credit amount of \$1,218. This resulted in CPD&C accounting records to be understated by \$63. The Contractor's final pay request No. 26 accurately reflected total changes of \$702,983.

In addition to the data provided by CPD&C, the Owner's project management firm, Consolidated CM (CCM) provided a detailed Change Order log that included descriptions of each Change Request. The report included a listing of the originating document for each Change Order, the Change Request/Estimate Numbers, Owner's Change Order Number and the Final Change Order Amount.

It should be noted that in comparing CCM's Log with both the Contractor's and Owner's records, we found this report to be incomplete and, in some cases, inaccurate in its reflection of the changes listed. Approximately 170 change requests were reflected on CCM's report incorporated into 26 of the 32 total changes. Change Order Nos. 27 through 32 totaled \$147,793 which were not included on the latest (September 23, 1998) CCM report we reviewed. Additionally, five changes listed on the report were incorrect and overstated the total changes by \$40,525. (The five were CO's 8, 10, 16, 18, 19 and 25.)

CCM included additional design fees and project management fees in their report - a departure from all other reports reviewed on the CSU construction projects. While this information is valuable, it should be reported separately from the Change Order Logs. Although KPMG was able to reconcile the Owner's, Contractor's and CCM's reports, this documentation should balance on an on-going basis. CCM's September 23, 1998, report indicated source codes for each change. KPMG calculated the following table by including changes attributable to the construction contract and excluded miscellaneous design and service additions. The following is a recap of total changes based on the information available at the time of our review:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	\$ 219,384	31.2%	1.8%
4.2 Unforeseeable job site conditions	51,057	7.3%	.4%
4.3 Regulatory agency, bldg. code, safety, health	10,000	1.4%	0%
4.4 Originated by the University	315,211	44.8%	2.6%
4.5 Unavailability of specified materials	0	0%	0%
4.6 Other	0	0%	0%
Math Errors	-40,525	- 5.8%	- 3%
CO 1 issued incorrectly	63	0%	0%
CO's 27 - 32 omitted on the CCM Report	147,793	21.1%	1.2%
Total Change Orders	\$702,983	100.0%	5.7%
Original Contract Amount	\$12,338,000		

KPMG sampled approximately 76 Change Proposal Estimates (CPE's) representing \$465,161 (66% of total change orders). In our review of the CPE's sampled, we found that the subcontract proposals were traceable to actual subcontract change orders without any significant deviations. The Contractor's records cross-referenced the Owner's change order on each subcontract change order.

In addition to the above review, KPMG reviewed all subcontracts to determine whether credits issued to subcontractors were traceable to Owner credits. We found approximately \$62,717 in credits to subcontractors. Of this amount \$4,389 was returned to the Owner. Of the remaining \$58,328; \$20,818 was for subcontractor backcharges and \$37,510 was for subcontractors' portions of final settlements relating to the claim initiated by Lewis C. Nelson. The backcharges

represented work that was originally the responsibility of the subcontractor but ended up being performed by the general or another subcontractor. The subcontractor settlements represented portions of the Contractor's final claim that were not awarded to Nelson by the University. Both the credits and the settlements represent negotiations between the contractor and subcontractors that would not have been credits due the Owner.

*Recommendations:*

1. As we have noted in previous reviews, we recommend the following:
  - a. A standardized change order log or summary should be prepared by Owner which includes a sequential, running total of changes issued to the construction contract. Alternatively, a running total of previously approved changes should be identified on the change order form. Both of these methods of change order tracking are standard industry practices utilized to provide information necessary to verify the accuracy of contractor's billings. Guidelines and standard forms should be developed for system-wide use.
  - b. Owner should develop standardized change order logs to be utilized by all project management firms wherever feasible. We have found that these essential management tools vary from project to project, depending on the consultants employed. Additionally, these reports should be updated/reconciled, either by the project management firm or the Owner, to reflect the final construction contract status.
  - c. Owner and Project Management records should be reconciled and kept in balance throughout project construction.

*Management's Response:*

- a. We agree to develop a standard form and guidelines for systemwide use. Form 703.04L, Change Order Log, was included in the Project Administrative Reference Manual, revised September, 1999.
- b. We agree. The duties of the Project Manager or Construction Administrator shall include reconciling change order logs and payment requests. These duties were added to the Project Administrative Reference Manual, revised September, 1999.
- c. We agree, as stated above in Item 1-b.

## PROJECT MANAGEMENT SERVICES

### *Findings:*

Multiple project management firms submitted qualifications to furnish project management services for the Stanislaus projects. Consolidated CM (CCM) was selected to provide project management services, as well as geotechnical and materials testing. A service agreement formalizing this arrangement was executed on October 1, 1996. CCM used the services of outside testing firms to perform this work. While normally this work would be contracted directly by the owner, we do not see an inherent conflict of interest in the use of CCM -- as the Owner's representative - as an intermediary.

Project Management services were to be provided from October 1, 1996, through April 30, 1998. The agreement included a Project Manager (\$75/hr), Scheduler (\$62/hr), Inspector of Record (\$43/hour) and Clerical Assistance (\$16.50/hour) at a total cost of \$397,652 (excluding \$39,848 for testing and inspection) or \$20,929 per month over a 19-month period. The agreement provided that office supplies and postage were not to exceed \$500 (although the exhibit attached to the agreement included \$2,500 for "other direct costs" and was not deducted from the total agreement). Amendment No. 1 increased the fee by \$62,000 for and extended the contract to August 31, 1998. Amendment No. 2 extended services for project close-out and settlement negotiations to October 31, 1998, for an additional cost of \$35,000. Amendment No. 3 was issued to extend settlement services to February 28, 1999, at a cost of \$10,000. The final amount for project management services was \$504,652.

The total service agreement (including expenses and testing) was \$547,000, broken down as follows: (The invoice breakdown is approximate as of our February review)

	<u>Agreement</u>	<u>Invoiced</u>
Project management services:	\$504,652	496,904
Expenses in agreement (original \$500)		
Expenses in proposal (additional \$2,000)	2,500	4,144
Testing	<u>39,848</u>	<u>40,245</u>
Total	\$547,000	\$541,293

Although, total project invoices did not exceed the agreement, we found reimbursable expenses did exceed the allowed amount. In addition, we found that expenses were marked up 10% on the first 17 billings before being detected by CPD&C. This resulted in a minimal overpayment of approximately \$280.

The total project management services represent 4.1% of the original construction contract amount of \$12,338,000, and 3.9% of the final construction contract amount of \$13,040,983 (through Change Order No. 32). The cost for these services is somewhat higher than industry averages (2.5% - 3.5%). However, without the last two amendments, which appeared to be a direct result of the claim submitted by the Contractor, the fee would have been 3.6%.

As noted in previous reports, CPD&C procedures include minimum desired qualifications for construction inspectors. These include certification by either ICBO (in general building, structural steel and concrete), or OSHPD, or DSA, or an equivalent level of certification. There was no reference in the service agreement requiring CCM to provide evidence of their personnel's certification. Contract documentation notwithstanding, KPMG was able to confirm that the Inspector of Record employed for this project is certified by ICBO.

*Recommendations:*

2. As we have noted in previous reviews, we recommend the following:
  - a. CPD&C develop Project Management cost guidelines for future projects.
  - b. Standard language be included in Project Management Service Agreements requiring Inspectors of Record to be certified by ICBO, OSHPD, DSA, or to hold an equivalent certification. Additional language should be incorporated requiring that proof of certification for key personnel be filed with CPD&C upon execution of the service agreement.

*Management's Response:*

- a. We agree to develop project management and inspector cost guidelines for systemwide use. This will be done by December 31, 1999, and will be included in SUAM.
- b. We agree, but we have also successfully used engineers and architects as inspectors. Therefore, we would add to the credential requirements "...architect, engineer, or equivalent qualification." This clarification was included in the Project Administration Reference Manual, revised September, 1999. Requiring proof of certification to be included in service agreements will be done by December 31, 1999, and will be included in SUAM.

## **CONTRACTOR BILLINGS**

*Findings:*

The A/E Consultant is required under the Contract General Conditions (Article 8.02 and 8.05) to review and approve each "Contractor's Pay Request." We found Lewis C. Nelson's pay requests through Application No. 24 to be appropriately approved by the A/E Consultant, Inspector and CPD&C. During our review of July 1999, Application Nos. 25 and 26 were not found.

*Note: Subsequent to our review, CPD&C were able to locate and provide appropriately approved copies of Applications Nos. 25 & 26*

*Recommendations:*

None

**CONTRACTING COMPLIANCE**

*Findings:*

KPMG sampled the most significant statutory compliance requirements identified in the contract specifications. The following requirements were tested:

- Bonding: KPMG examined Contractor's Payment and Performance bonds in the amount of \$12,338,000 and found them to be in accordance with Owner's specifications.
- Bid Tabulation Procedures: KPMG found the bid process to be acceptable as outlined in the CSU Contract General Conditions (Article 2.00 Bidding). The Abstract of Bids (CSU Construction Management form 701.01) identified the eight bidders and pricing for the project. KPMG reviewed the original bids and found the Abstract of Bids was completed correctly for the base bid amounts. Lewis C. Nelson's deductive alternate D-1 was typed as \$154,000, rather than the actual amount of \$159,000. The Abstract included the certification and signature of the person receiving and recording the bids.
- Proposed Subcontractors: Per Article 2.06.b of the CSU Contract General Conditions, each Contractor shall submit a list of each subcontractor that will perform work or labor or render services in excess of one-half of one percent of the Contractor's total bid. This information was submitted on CSU's Construction Management form 701.04, "List of Proposed Subcontractors".
- Expanded List of Subcontractors: Per Article 2.06.b of the Contract General Conditions, the low bidder was to resubmit the subcontractor list (CSU Construction Management form 701.04A) with detailed addresses, phone numbers and license numbers. Three (3) subcontractors included on the proposed and expanded lists were substituted. KPMG found that the substitutions complied with the Subletting and Subcontracting Fair Practices Act (Public Contract Code Section 4100 *et seq.*).

While conducting our on-site visit at the contractor's office, we anecdotally discovered that the President of Lewis C. Nelson has a material interest in the ownership of the Concrete and Carpentry Subcontractor, Robyn Construction. We were informed by members of the Contractor's staff that the president of Lewis C. Nelson and his wife owned Robyn Construction. While KPMG has not reviewed any legal documents or filings related to the ownership of Robyn construction, if this information is correct, we feel that appropriate disclosure should have been made to CSU.

We were unable to identify that disclosures of participation in the ownership of subcontracting firms are a requirement of CSU contract documents. KMPG finds this information pertinent to industry-standard contracting procedures since, in effect, it provides the General Contractor an opportunity to collect additional overhead and profit.

*Recommendations:*

3. We recommend:
  - a. Owner should confirm that bids are correctly recorded on the Abstract of Bids.
  - b. CSU formulate documentation that requires Contractors to disclose corporate relationships with any and all Sub-Contractors. In particular, disclosure should be required if a parent-subsidiary relationship exists, or if the Owner or Officers of the General Contractor are a related party to any of the Sub-Contractors, or vice versa.

*Management's Response:*

- a. We agree. We will add recommended procedures to the Project Administration Reference Manual by December 31, 1999.
- b. We agree to formulate contractor to subcontractor relationship requirements. This will be done to protect the Trustees' interest in change order mark-ups. This will be done by December 31, 1999, and will be included in SUAM.

### **LIQUIDATED DAMAGES**

*Findings:*

Liquidated damages in the amount of \$2,000 per calendar day were included in the bid proposal and the construction contract for the Professional Schools project. The original contract completion date was April 17, 1998. Change Orders nos. 5 and 21 provided for a 107 day, non-compensable, weather related, time extension. The revised completion date was established as August 2, 1998. The Notice of Completion for the project was filed on December 4, 1998.

On February 1, 1999 Lewis C. Nelson submitted a 185-day claim for additional job site and home office overhead costs in the amount of \$313,857 (including a 5% profit). The Contractor also claimed an additional \$303,845 for extras, damages and extra analysis. The submission of the Contractor claims were within 60 days of Notice of Completion, as provided for by the General Conditions of the Contract (5.02, 6.01, and 7.01). Although a detailed review of the claim was beyond KPMG's scope of work, we did review the claim calculations. We found the time extension request was based upon standard industry methods for the calculation of extended

overhead costs, but we did not perform a detailed schedule review to assess the validity of the 185-day claim.

The final settlement Change Order No. 32 provided a 121-day extension at a cost to CSU in the amount of \$90,000. Including a 5% profit, this equated to approximated \$709 per day, rather than the \$1,616 per day requested by the contractor. As a result of this negotiation, the final settlement disallowed the additional claim of \$303,845. In light of the pending dollar value of the claims alleged by the Contractor, KPMG feels CPD&C negotiated in the best interest of CSU with regard to the final change order settlement.

*Recommendations:*

None

**PROJECT ADMINISTRATION PROCESS COMPLIANCE**

*Findings:*

KPMG selected various areas of review to determine if CPD&C provided adequate controls to assure that construction was in accordance with project specifications. As a part of this review, KPMG examined procedures for both geotechnical and materials testing. Per Article 2.16 of the General Conditions, the Owner, rather than the contractor, utilizes at least three bids and arranges for outside testing laboratories through a service agreement. This practice is standard industry procedure and designed to assure that firms providing testing services remain independent of the project contractor.

As discussed previously in the section entitled "Project Management Services", CCM's service agreement included provisions for all testing. These included testing and inspection services for reinforced concrete, post tensioned concrete, structural steel, and soils compaction. CCM's service agreement, dated October 1, 1996, included a proposal of \$39,848 for testing services and covered services through April 30, 1998. The approximate amount paid for these services has been discussed above. Consolidated Engineering Laboratories provided testing through CCM. Testing results and invoices were furnished as part of CCM's agreements. KPMG sampled laboratory invoices and found that tests and pricing were in accordance with the service agreement. Based on a random review of specific tests, we found that the testing specifications and requirements of Volume 2 of the Project Manual were generally met or exceeded.

*Recommendations:*

None

## VERIFICATION OF MAJOR EQUIPMENT AND COMPONENTS

### *Findings:*

As part of our evaluation to verify whether equipment and construction components were provided in accordance with project specifications, KPMG reviewed the submittal procedures outlined under the General Conditions, Article 5.04. As is standard throughout the construction industry, the Contractor was responsible for submitting data and specifications for materials and equipment, along with shop drawings if required, to the A/E Consultant. Article 3.11 of the CSU Project Administration Reference Manual states that the Project Manager/Construction Inspector shall assist in the submittal process.

KPMG found that Lewis C. Nelson and CCM utilized submittal logs to monitor each submission and disposition of each. There were approximately 160 required submittals included on Lewis C. Nelson's log. Of these 160 issues, 24 were approved on the initial submission and 59 were approved indicating notations from the consulting A/E. The remaining 77 submittals included multiple submissions prior to final approvals. Of these 77, KPMG reviewed 11, or a total of 14.3%. KPMG selected those items that represented major equipment, systems, and materials that would have the greatest impact on the project.

While in Lewis C. Nelson's office, we were provided all submittal detail and sampled a number of the approved submittals and found that all included appropriate evidence of conformance with CSU specifications.

We reviewed the following submittals in greater detail:

**Submittal 051, 051R1, 051R2, 051R3 - Telecommunications 16800, 810, 811, 821:** The original submittal was sent to the A/E on December 11, 1996. The submittal was returned January 7, 1997, indicating "Revise and Resubmit". On February 6, the engineer reviewed the re-submittal (051R1) and requested clarifications on part numbers and specific cable specifications. On July 1, 1997, the engineer approved the submittal (051R2) with indication to "make corrections as noted". On February 12, 1998, the A/E approved 051R3 to supply a cable substitution in response to a Request for Information. The electrical subcontractor provided a one-year extended warranty for the substitution of Prestolite cable for the specified Hitachi cable.

**Submittal 054, 054R1 - Overhead Coiling Grill Product Data 08341:** The product data was originally submitted on December 17, 1996, and returned January 20, 1997, to make corrections relating to the finish sample. On April 30, 1997 submittal records indicated approval of the Atlas grille finish in lieu of the Cornell overhead coiling grille as specified. File documentation indicates that Lewis C. Nelson required the supplier to provide confirmation of compliance to general conditions.

**Submittal 059 - HVAC Shop Dwgs, Piping, Hangers, and Chemical Treatment 15800:** On January 7, 1997, the plumbing subcontractor submitted details for Bell & Gossett pumps. On January 8, 1997, the consulting A/E reviewed the submittal and instructed the contractor to

correct drain pipes and instructed the chemical treatment vendor to submit a drawing of piping and equipment. On January 9, 1997, the contractor notified that the submittal was approved with the corrections to be noted.

**Submittal 073 - HVAC VAV Box Control 15800:** On May 30, 1997, the engineer submitted Servitech Controls product data as conforming to CSU's specifications with no exceptions. On June 16, 1997, the consulting A/E advised that the upgrade for the VAV box controls was an acceptable substitution. On June 20, 1997, the contractor notified the subcontractor that the upgrade was acceptable with no increased costs to CSU.

**Submittal 081 - Sheet Membrane Waterproofing 07110:** A substitution of Sealtight, Air-Shields for the specified Perma-Barrier product was submitted by the subcontractor to the contractor on April 3, 1997. On May 23, 1997, the consulting A/E approved the Sealtight wall flashing as submitted.

**Submittal 082, 082R1 - PVC Liner 07111:** Submitted January 17, 1997, by the Contractor and was rejected February 11, 1997, due to the inability to establish equality of the specified product. 082R1 the vendor submitted a polyvinyl chloride (PVC) product. On December 2, 1997, the Contractor returned the submittal with notations, but was instructed to "revise and resubmit" by the consulting A/E on January 28, 1998. KPMG found no documentation that a revised submittal was provided.

**Submittal 083 - Rebar Shop Drawings 03200:** On January 24, 1997, the subcontractor submitted incomplete drawings for the rebar submittal. On January 27, 1997, the Contractor forwarded revised shop drawings to the consulting A/E. On February 4, 1997, the consulting A/E returned the submittal approved with indications to make corrections noted.

**Submittal 127, 127R1 - Building Insulation 07212:** On April 25, 1997, the contractor submitted Celotex Hy-Therm Rood insulation product information samples. On April 30, 1997, the A/E Consultant approved the submittal. Submittal 127R1, dated September 15, 1997, proposing a board insulation substitution was approved on September 19, 1997, by the consulting A/E.

In addition to reviews by the A/E Consultant, CCM, Inspector of Record and regulatory city/state inspectors, the CSU Construction Mgmt. Form 702.19 requires that the general contractor and subcontractors guarantee that materials/systems have been installed in accordance with the Plans and Specifications.

*Note: Subsequent to our review, CPD&C provided documentation from the A&E firm that field verification determined that the liner installed did meet project specifications.*

*Recommendations:*

None

## CLOSEOUT DOCUMENTS

### *Findings:*

CPD&C maintains a "Stop Notice Log" that identifies all claimants and amounts claimed. The log was found to be adequately maintained. Although the Contractor furnished substantial transmittal information indicating transmission of closeout documentation, KPMG did not find the "Project Closeout Checklist" appropriately executed. We find this checklist to be an excellent tool for monitoring the closeout process.

### *Recommendations:*

4. We recommend:
  - a. Owner ensure that Project Managers and Inspectors furnish signed documentation that verifies all required closeout documentation is turned over to a campus designee familiar with closeout requirements prior to release of final payment to the Contractor.

### *Management's Response:*

- a. We agree. The Project Closeout Checklist and the requirement to execute it was added to the Project Administrative Reference Manual, revised September, 1999.

## CONCLUSION

KPMG found Lewis C. Nelson & Sons, Inc. reluctant to allow this review to be conducted prior to the final resolution of the CSU final agreement and payment. On April 1, 1999, CPD&C notified the Contractor of our pending review originally scheduled for April 12, 1999. On April 6, 1999, Lewis C. Nelson wrote to CPD&C stating their concern that the "audit" was a direct result of their right to file a claim and protested CSU's review. Further, in an April 9, 1999, letter to CPD&C, Lewis C. Nelson contented that the "audit is to not take place until after the final payment of the contract" per Article 4.01c of the General Conditions.

Although KPMG does not agree with the content of the contractor's letter or the interpretation of the contract, it became readily apparent that the contractor would not allow us to review their project files. Rather than force this issue, the Owner decided to negotiate the final payment and Contractor claims. Once the final payment was negotiated and made, KPMG re-notified the Contractor of the review in a fax dated July 21, 1999. At this point, we found the Contractor to be cooperative in our efforts.

# Memorandum

**To:** Mr. Larry Mandel  
University Auditor  
Office of University Auditor

**Date:** November 29, 1999

**RECEIVED**  
University Auditor

NOV 29 1999

**From:** Richard P. West   
Executive Vice Chancellor and Chief Financial Officer  
Business and Finance Division

**The California State  
University**

**Subject: Audit Report**  
Professional Schools Building, Project No. ST-462  
California State University, Stanislaus

I am pleased that the overall theme of this audit report continues in a positive vein and that it finds general compliance with established procedures. I have reviewed the report's findings with my Capital Planning, Design and Construction (CPDC) staff and our specific comments to the auditors' findings and recommendations follow.

### Change Orders

#### Recommendations:

- 1-a. We agree to develop a standard form and guidelines for systemwide use. Form 703.04L, Change Order Log, was included in the Project Administrative Reference Manual, revised September, 1999.
- 1-b. We agree. The duties of the Project Manager or Construction Administrator shall include reconciling change order logs and payment requests. These duties were added to the Project Administrative Reference Manual, revised September, 1999.
- 1-c. We agree, as stated above in Item 1-b.

### Project Management Services

#### Recommendations:

- 2-a. We agree to develop project management and inspector cost guidelines for systemwide use. This will be done by December 31, 1999, and will be included in SUAM.
- 2-b. We agree, but we have also successfully used engineers and architects as inspectors. Therefore, we would add to the credential requirements "...architect, engineer, or equivalent qualification." This clarification was included in the Project Administration Reference Manual, revised

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September, 1999. Requiring proof of certification to be included in service agreements will be done by December 31, 1999, and will be included in SUAM.

Project Administration Process Compliance

Recommendations:

- 3-a. We agree. We will add recommended procedures to the Project Administration Reference Manual by December 31, 1999.
- 3-b. We agree to formulate contractor to subcontractor relationship requirements. This will be done to protect the Trustees' interest in change order mark-ups. This will be done by December 31, 1999, and will be included in SUAM.

Closeout Documents

Recommendations:

- 4-a. We agree. The Project Closeout Checklist and the requirement to execute it was added to the Project Administrative Reference Manual, revised September, 1999.

JRC:bn

cc: Mr. J. Patrick Drohan  
Mr. W. Clifford Hahn



# THE CALIFORNIA STATE UNIVERSITY

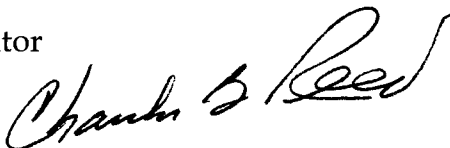
BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT  
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CHARLES B. REED  
CHANCELLOR

December 14, 1999

## MEMORANDUM

**TO:** Larry Mandel  
University Auditor

**FROM:** Charles B. Reed   
Chancellor

**SUBJECT:** KPMG Peat Marwick Draft Final Report on the *Professional Schools Building Project* at California State University, Stanislaus

In response to your memorandum of December 13, 1999, I accept the response as submitted with the draft final report on the *Professional Schools Building Project*, California State University, Stanislaus.

CBR/cw

Enclosure

cc: Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
Business and Finance