

**SAN JOSE STATE UNIVERSITY
MOSS LANDING MARINE LABORATORIES
-- EARTHQUAKE REPLACEMENT**

Final Report

June 23, 2000

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

PROJECT OVERVIEW

The CSU Moss Landing Marine Laboratories project consisted of a 60,000 gross square foot wood-framed single story building, and a partial basement of approximately 8,000 gross square feet. The building included laboratories, support areas, instructional spaces, offices and a shop building. Site work included approximately 200,000 square feet of re-grading, with approximately 40,000 square feet of paved area and approximately 30,000 square feet of unpaved parking and access roadway. Utility distribution and retaining walls were included in the project. CSU Capital Planning, Design, and Construction (CPD&C) managed this project.

KPMG reviewed project records from the following firms that were involved in the project's development and execution:

Contractor: Mauldin-Dorfmeier Construction Inc. (Fresno office)
Architect/Engineer (A/E): Stone Marraccini Patterson (SMP)
Project Management (PM): Bjornson Construction and Inspection Services

In addition to the firms above, KPMG reviewed University records furnished by CPD&C.

At the time of this writing, the Contractor had not yet invoiced \$155,650 in change orders. Included in this amount was the "global settlement" change in the amount of \$14,146 that had not yet been approved by the Contractor. The last invoice submitted by Mauldin-Dorfmeier was dated April 13, 2000, and reflected \$681,945.14 in retainage.

CONSTRUCTION BID PROCESS

The Marine Laboratories, designed by Stone Marraccini Patterson (SMP), was estimated at \$13,000,000. The first Notice to Contractors indicated an original bid date of December 18, 1997. The low bidder, Howa Construction, Inc., requested permission to withdraw their bid due to clerical errors. The withdrawal request was granted in accordance with Section 5100 *et seq.* of the Public Contract Code. The project was re-bid January 9, 1998. Howa was precluded from re-bidding. Five bidders were listed on the Abstract of Bids. The low bidder, Mauldin-Dorfmeier, submitted a base bid in the amount of \$12,249,000 and was awarded the construction contract on February 23, 1998. The initial specifications listed two deductive alternates; neither of which were accepted at the time of contracting.

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed
- Mauldin-Dorfmeier furnished an appropriate Payment and Performance Bond in the original contract amount as required
- Mauldin-Dorfmeier is a California Corporation
- The original construction period was to cover 460 calendar days
- Liquidated damages were stated to be \$2,000 per day
- Notice to Proceed was given on May 4, 1998
- Original completion was established as August 6, 1999
- Extensions of 115 days were included in two change orders throughout the construction period extending the completion date to November 29, 1999
- A 173-day extension was granted in the final "global change order," which extended the completion to May 20, 2000, 40 days beyond the completion indicated on the Notice of Completion
- Notice of Completion was recorded on April 21, 2000, and indicated a completion date of April 10, 2000

CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

The "List of Proposed Subcontractors" (CM Form 701.04) and the "Expanded List of Subcontractors" (CM Form 701.04 A) included 15 subcontractors. In final CO No. 44 CPD&C agreed to waive penalties "for the Contractor's use of unlisted subcontractors, whose value of work was in excess of one-half percent." Our review found the following:

- The listed fiber/cement roofing panel subcontractor was CUDD Construction. The Contractor requested that Alcal Roof System be substituted to perform the work. The substitution was appropriately approved by CSU in accordance with Section 4107 of the Public Contract Code.
- T. P. Thomas, the HVAC piping subcontractor, was not listed on the Proposed or Expanded List of Subcontractors. The HVAC hot/cold supply/return piping subcontract, in the amount of \$360,000, exceeded ½ of 1% of the original construction contract. This omission could have been subject to penalty according to the California Public Contract Code.
- Walter C. Smith, the HDPE piping subcontractor, was not listed on the Proposed or Expanded List of Subcontractors. The 6" HDPE piping subcontract, in the amount of \$74,000, exceeded ½ of 1% of the original construction contract. This omission could have been subject to penalty according to the California Public Contract Code.

**KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R**

Recommendations:

1. Contractors should be required to list subcontractors in accordance with State Statute.

Management's Response:

1. We agree. The Subcontractor Status Report, initiated in January 2000, will be a helpful tool in policing compliance with the contract and statute requirements.

CONSTRUCTION CHANGE ORDERS

There were 47 change orders totaling \$1,550,956 incorporating approximately 120 Change Proposals (CP) issued on the project. These changes revised the final contract amount to \$13,799,956 and added 12.66% to the contract amount. Numerous changes were issued on a "time and materials" (T&M) basis for Earthwork, Utility Work and Guard Service. Of the total changes, \$474,211 was attributable to T&M changes. T & M change orders are more expensive for Owners due to the difficulty in extricating labor and material costs associated with "change" portions of work from base contract work and the tendency of contractors to maximize their profit.

The "Change Order Summary," a CPM report furnished by CPD&C, accurately reported all approved change orders. The "Change Proposal Detail" report, another CPD&C (CPM) report, was incomplete. The payment history furnished by the accounting department of the Chancellor's Office accurately reported the correct change orders.

The Change Order Log prepared by the PM incorrectly identified four change orders and was not accurately totaled. The PM report identified \$1,517,510 in total changes. When manually added, the log totaled \$1,543,564, a difference of \$26,054. In addition, the log reported Change Order 26 \$720 more than the actual change order amount due to a transposition and Change Order 47 omitted a change proposal in the amount of \$3,966; the remaining two change order variances were insignificant.

Change Order Analysis:

As a normal process in reviewing change orders, we sampled change orders and traced all subcontractor estimates to the actual subcontractor change orders. The Contractor furnished subcontract files and provided a "Subcontractor Change Order Log." KPMG sampled change orders totaling \$783,245, or 51% of total changes. All subcontractor quotes presented in CSU change orders were traced to subcontractor change orders.

As stated above, CSU approved numerous changes on a T & M basis. We confirmed actual costs for Security Services, as the Contractor coded all security costs in a separate

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

cost code and provided a general ledger printout that supported total cost. Regarding the Utility and Earthwork changes, the Contractor attempted to keep detailed records of additional costs in order to track specific hours allocable to change order work versus base construction work. Although a comprehensive review of these changes was outside the scope of KPMG's engagement, we found the PM thoroughly reviewed these changes. The T & M changes are as follows:

CO #	Description	By CSU	Subtotal
10	Security	65,000	
13	Security	52,000	117,000
19	Earthwork	100,000	
24	Earthwork	48,950	
29	Earthwork	7,545	
29	Earthwork	15,006	
41	Earthwork	38,270	209,771
27	Utility	83,987	
30	Utility	35,810	
36	Utility	15,221	
42	Utility	3,701	
42	Utility	5,721	144,440
Total			474,211

Change Order Report Analysis:

Although the PM's Change Order Log reflected the "reason code" of each Change Proposal, (with the exception of the final "settlement change order"), the report was not subtotaled by reasons. KPMG's calculations follow:

Type of Change	C.O. Totals	% of CO	% Contract
4.1 Errors/Omissions from the Contract Documents	\$ 189,926	12.24%	1.55%
4.2 Unforeseeable job site conditions	126,188	8.13%	1.03%
4.3 Regulatory agency, bldg. code, safety, health	95,317	6.15%	.78%
4.4 Originated by the University	395,732	25.52%	3.23%
4.5 Unavailability of specified materials	0	0.00%	.00%
4.6 Other	726,401	46.84%	5.93%
Change Order 26 error	- 720	- 0.05%	-.01%
Change Order 47 error	3,966	.26%	.03%
Final Settlement CO	14,146	.91%	.12%
Total Change Orders	\$ 1,550,956	100.00%	12.66%
Original Contract Amount	<u>12,249,000</u>		
Total	\$13,799,956		

Recommendations:

- Project management reports should be produced and reviewed on a regular basis in order to monitor construction budget contingencies. If these reports are not required as part of project management services they should be so documented or the firm should be penalized for not providing the required reports or for submitting incomplete information.

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

3. T & M change orders should be minimized. Where T & M change orders are practical, CSU should require the Contractor to establish a separate job number and track costs separately from the overall project accounting records.
4. If CPD&C continues to utilize the CPM system, it should be “de-bugged” and re-formatted so that it functions as an effective project management tool.

Management’s Response:

2. We agree, however adequate reports are the responsibility of the Construction Administrator per existing procedures. If reports are not required by the services provider, then the Construction Administrator shall produce the reports. This happens when a Project Manager is not used or is not retained until completion of a project. We will add requirements to SUAM by November 30, 2000, to strengthen the requirement that adequate records or reports must be maintained by the project management team.
3. Time and materials change orders are done only as necessary to accommodate the schedule, lack of agreement in cost, or, as in this case, because the cost cannot be fairly determined in advance. Contract procedures require daily submittal of time and materials records for verification. Costs are determined upon reconciled daily records. Assigning individual account numbers to time and material changes is normal practice, but does not require being specified.
4. We agree. We will either make modifications to CPM by November 30, 2000.

DESIGN COSTS

Stone Marraccini Patterson originally designed this project in 1991, supported by an agreement dated October 13, 1991. CSU faced legal challenges involving local environmental interest groups and archeological concerns delaying project construction six years. The scope of the project did not have traditional components of a new project and numerous “amendments” and “extra service authorizations” (ESA) modified the original 1991 agreement. Since initial design phases in 1991 and 1992, and the revised January 1998, bid of \$12,249,000, the A/E contract was adjusted from \$566,466 to \$836,676 in Amendment No.2 dated March 10, 1998. ESA dated May 18, 1998, added an additional \$74,808 for an increase in the bidding and construction administration phases and site visits. We were able to identify 42 extra services authorized on the project and prepared an analysis of the payments against these authorizations. Most of the invoices for the original design phases were not maintained in current files and were archived when the project was temporarily stopped.

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

At the time of the KPMG review, CPD&C was in the process of reconciling accounting invoice records to approved contractual obligations. CPD&C indicated difficulty in performing this reconciliation. We performed a comprehensive review of the 28 invoices provided. Although invoices were thoroughly checked, we were unable to reconcile total invoices reviewed to the accounting records furnished by the accounting department (Chancellor's office.) This task was complicated by the fact that the majority of the base agreement invoices had been paid against the 1991 contract and those invoices were not available.

KPMG found that the CPM system did not report the same extra services as the CSU accounting records. The CPM system did not list the first 22 ESA's or ESA 31. When the CMP system was originally implemented, CPD&C made a management decision to not retroactively input approved ESA's, therefore the report did not correctly state project data. We found the current practice of maintaining independent reporting systems (CSU accounting and the CPM commitment system) ineffective.

Agreement/Payment Analysis:

As shown on the following table, many ESA's were not listed on the accounting records. In two instances, ESA 1 & 7, only partial approvals were given to proceed, at the time of execution. CSU accounting records reflected the total of these two ESA's and overstated approvals/encumbrances by \$73,011.

The following is the result of our review of extra services:

ESA #	CSU Acct'ing Records	ESAs Reviewed	Invoices Reviewed	(Not Billed)
ESA 42	Not Listed	5,500	Not in File	
ESA 41	Not Listed	17,950	17,950	
ESA 40	1,819	1,819	1,819	
ESA 39	5,400	5,400	5,400	
ESA 38	6,450	6,450	6,450	
ESA 37	14,258	14,258	14,258	
ESA 36	3,088	3,088	3,088	
ESA 35	Not Listed	Not Found	Not in File	
ESA 34	16,750	16,750	16,750	
ESA 33	7,574	7,574	7,574	
ESA 32	6,105	6,105	6,105	
ESA 31	Not Listed	7,120	Not in File	
ESA 30	1,430	1,430	1,430	
ESA 29	19,926	19,926	3,019	(16,907)
ESA 28	Not Listed	7,120	7,120	
ESA 27	74,808	74,808	27,971	(46,838)

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

ESA 26	10,070	10,070	Not in File	
ESA 25	5,790	5,790	5,790	
ESA 24	7,100	7,100	7,100	
ESA 23	15,482	15,482	15,482	
ESA 22	17,050	17,050	17,050	
ESA 21	21,200	21,200	10,600	(10,600)
ESA 20	8,080	8,080	6,127	(1,953)
ESA 19	29,700	29,700	Not in File	
ESA 18	9,900	9,900	Not in File	
ESA 17	10,690	10,690	Not in File	
ESA 16	10,988	10,988	Not in File	
ESA 15	36,000	36,000	Not in File	
ESA 14	Not Listed	66,224	Not in File	
ESA 13	Not Listed	Not Found	Not in File	
ESA 12	Not Listed	Not Found	Not in File	
ESA 11	19,448	19,448	Not in File	
ESA 10	1,800	1,800	Not in File	
ESA 9	21,800	21,800	Not in File	
ESA 8	22,200	22,200	Not in File	
ESA 7	71,280	25,630	Not in File	
ESA 6	8,600	8,600	Not in File	
ESA 5	7,500	7,500	Not in File	
ESA 4	81,539	81,539	Not in File	
ESA 3	14,990	14,990	Not in File	
ESA 2	4,084	4,084	Not in File	
ESA 1	40,838	13,477	Not in File	
TOTAL	633,737	664,640		

In addition to preparing an analysis of paid invoices by base contract phase and extra service, we attempted to determine the total amount paid to the Architect. The CSU accounting report did not provide an adequate reference to determine how much had been billed on certain phases or extra services. We could not determine with certainty how much had been paid on the overall contract. Although the CSU accounting report may serve to indicate if total payments exceed encumbrances, it cannot be used as reference tool when approving interim invoices.

Recommendations:

5. CPD&C should provide a final accounting of project A/E services.
6. If authorizations are issued and it is later determined that the work is no longer required or the scope of service is reduced, CPD&C should issue subsequent adjustments (ESAs) so that encumbered funds are not expended against unauthorized invoices.

**KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R**

Management's Response:

5. CPDC and the AE firm have reviewed the contract, extra services, and payments to date, and they have agreement that the contract will be paid in full upon the release of the final Record Drawing fee component that is currently being withheld.

Future projects will be administered with an improved CPM system to track AE invoices in greater detail, and the system will be improved by November 30, 2000.

6. We agree. We will implement procedures for future projects by November 30, 2000.

PROJECT MANAGEMENT SERVICES

Bjornson Construction and Inspection Services performed general on-site project management/inspection services for this project.

The PM firm provided combined project manager and inspector services and duties did not include all aspects identified for both functions in the CSU Project Administration Reference Manual. The original fee for inspection services represented 1.2% (\$150,000/\$12,249,000) of the original construction agreement. When considering amendments, the total PM fee equated to \$190,000, or 1.38% of the final construction costs including change orders. This amount is below the industry standard of 2.5% to 3.5% for project management services, reflecting the limited scope of contract project management associated with this project. The table below places the project PM fees in the context of other projects reviewed as part of our CSU construction assurance work.

**KPMG Construction Cost Review
 CSU -Moss Landing Marine Laboratories - Earthquake Replacement
 SJ-200R**

Project	Final Construction	Final PM Costs	Percentage	
LB-610	10,651,263	680,000	6.38%	
ST-462	13,040,983	501,048	3.84%	
SJ-535	22,754,755	783,431	3.44%	
SF-454	8,848,007	297,277	3.36%	
SD-965R	32,521,297	860,892	2.65%	
HU-437	8,885,916	224,243	2.52%	
SL-475	26,084,489	590,187	2.26%	
NO-496R	24,271,292	531,500	2.19%	
SF-476	27,847,804	543,477	1.95%	
LA-442	18,881,340	336,340	1.78%	
CO-627B	26,112,338	459,451	1.76%	Pre Completion
SJ-200R	13,795,810	190,000	1.38%	Limited Scope
SM-460	12,534,361	160,643	1.28%	Limited Scope
LB438				(Not Evaluated)
Totals	246,229,655	6,158,489	2.50%	

The construction agreement and amendments approximated actual project management services provided. The original construction inspection agreement was executed on April 20, 1998, in the amount of \$150,000, plus expenses of \$500. The original agreement covered approximately 17 months and one week: April 21, 1998, through September 30, 1999. The terms of the agreement indicated the fee would cover full time services at \$50 per hour. At 173.33 work hours per month (an average 40 hour week), this would have equated to approximately \$150,000. The subsequent amendments added \$40,000 to the PM fee and extended the contract through May 31, 2000 (eight months.), which also covered PM services for Project SJ200S that was not a part of this project.

KPMG reviewed detail to support PM expenses in the amount of \$13,037 that included costs for office equipment. Since this equipment appears to be inherent to service-providing firms, they do not appear to be appropriate for reimbursement. If reimbursed, all non-expendable material purchases should be left with the University upon project conclusion.

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

Agreement/Payment Analysis:

The table below summarizes the total encumbrances and costs for project management services for both the SJ200R and SJ200S:

Source	Period	Inspector	Supplies	Total
Original Agreement	April 21, 1998 through September 30, 1999	\$150,000	\$500	\$150,500
Amendment No. 1	Computer System		3,000	3,000
Amendment No. 2	Survey cost, permits, utility costs, expenses		10,000	10,000
Amendment No. 3	Extension thru December 31, 1999 (92 days)	-		-
Amendment No. 4	Extension thru January 31, 2000 (31 days)	40,000		40,000
Amendment No. 5	Extension thru May 31, 2000 (121 days)	-		-
Total		\$190,000	\$13,500	\$203,500
Payments				
1- 05/15/98		\$2,600	\$500	\$3,100
2- 06/15/98		7,600	1,072	8,672
3- 07/15/98		9,900	83	9,983
4- 08/15/98		7,600	-	7,600
5- 09/18/98		9,600	415	10,015
6- 10/16/98		8,000	38	8,038
7- 11/20/98		10,000	493	10,493
8- 12/11/98		5,200	92	5,292
9- 01/15/99		9,200	-	9,200
10- 02/19/99		9,600	60	9,660
11- 03/19/00		8,000	-	8,000
12- 04/16/99		8,000	-	8,000
13- 05/14/99		8,000	1,638	9,638
14- 06/04/99		5,600	-	5,600
15- 07/16/99		11,600	1,728	13,328
16- 08/20/99		10,000	-	10,000
17- 09/24/99		9,600	1,025	10,625
18- 10/22/99		8,000	-	8,000
19- 11/24/99		9,200	385	9,585
20- 12/31/99		9,600	60	9,660
21- 01/31/00		8,000	111	8,111
22- 02/25/00		7,200	4,483	11,683
23- 03/31/00		3,000	0	3,000
24- 05/31/00 (2 months)		<u>3,000</u>	<u>854</u>	<u>3,854</u>
Total Invoices		188,100	13,037	201,137
Overpaid/(Underpaid)		(1,900)	(463)	(2,363)

Recommendations:

7. Project management services should be provided in accordance with the Project Administration Reference Manual, or justification for reduced or expanded services should be documented.
8. CSU should identify classes of reimbursable and non-reimbursable costs to be allowed under project management/inspector agreements. These guidelines should recognize the implications on determination of independent contractor/employee status established by IRS statute and case law.

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

9. Service agreements and amendments should be individually issued by projects rather than including multiple project numbers under one agreement.

Management's Response:

7. We agree, however adequate reports are the responsibility of the Construction Administrator per existing procedures. If reports are not required by the services provider, then the Construction Administrator shall produce the reports. This happens when a Project Manager is not used or is not retained until completion of a project. We will add requirements to SUAM by November 30, 2000, to strengthen the requirement that adequate records or reports must be maintained by the project management team.
8. CSU standard practice is to have the general contractor provide a temporary office and equipment for use by the Project Manager and/or Inspector(s) whose services are acquired under contract. This has proven to be the most economical means of acquiring the temporary equipment. This project failed to follow normal practice, and the needed equipment was provided as extra costs via the Project Management Service Agreement. We will add guidance to SUAM by November 30, 2000.
9. We disagree. Using one individual to provide project management and inspection services for both projects at the same site was a prudent way to conserve contract resources by eliminating duplicitous administrative processes for no perceived value. There was no reason to separate the services because it was funded by a common source of funding. Additionally, the two projects are phases of the same project.

LIQUIDATED DAMAGES

The original contractual completion date was extended by 115 days beyond the original completion date in CO Nos. 2 and 10. These changes revised the completion date to November 29, 1999. The Notice of Completion, recorded on April 21, 2000, indicated a completion date of April 10, 2000.

Final Change Order No. 44 provided for a 173-day extension, 40 days beyond the Notice of Completion. Although a justification letter was prepared and approved by CPD&C it did not detail the offset of the contractor's claim against liquidated damages that could have been assessed. If assessed, damages would have equated to approximately \$115,000. This calculation follows:

KPMG Construction Cost Review
CSU -Moss Landing Marine Laboratories - Earthquake Replacement
SJ-200R

Established completion date in CO Nos. 2 and 10	November 29, 1999
Beneficial Occupancy	January 10, 2000
42 days late at \$2,000	\$84,000
From Beneficial Occupancy to actual completion	April 10, 2000
62 days late at \$500	\$31,000

Recommendations:

10. CPD&C should make every attempt to clearly document the final analyses in a comprehensive format at the time final negotiations are addressed.

Management's Response:

10. It is not appropriate to calculate claim offsets versus the value of liquidated damages in determining time extensions. In this case CPDC considered the preponderance of delays were not the contractor's fault, and time extension was granted accordingly.

MAJOR EQUIPMENT REVIEW

The initial review of Contract Documents, consisting of Project Specifications, was performed in the CPD&C office on March 22-24, 2000. Subsequently, we reviewed actual submittal documentation at the Contractor's office on April 19, 2000. KPMG visited the campus on April 24, 2000. The following specification sections were reviewed:

Division 11610	Laboratory Fume Hoods
Division 13035	Environmental Room
Division 15440	Plumbing Fixtures
Division 15800	HVAC
Division 16400	Service & Distribution
Division 17614	Valves

Of the submittals reviewed, all were traced from Project Specifications through submittal data and final acceptance. We found that the equipment specified was supported with required acceptance documentation. A project walk-through was conducted on April 24, 2000, with representatives from campus engineering personnel in attendance. The intent of this walk-through was to verify that specified and approved equipment had been provided and installed by the Contractor. Of the areas selected for review, all sampled specified manufacturers equipment had been approved and installed.

The following equipment items and specific model data, were approved and visually confirmed as installed at the Moss Landing campus:

**KPMG Construction Cost Review
 CSU -Moss Landing Marine Laboratories - Earthquake Replacement
 SJ-200R**

Div. Section	Equipment Description	Specified/ Approved Manufacturers	Submitted Model
11610	Laboratory Fume Hoods	Jamestown	"Isolator Fume Hood" Systems
13035	Environmental Room	Environmental Growth Chambers	Custom
15440	Plumbing Fixtures		
	Water Closet	Kohler	K-4330
	Urinal	Kohler	K-5016
	Lavatory	Kohler	K-12635
	Water Heater	A.O. Smith	"Dura-Power"
15800	HVAC		
	Air Handling Unit	McQuay	MSL-122DH
	End Suction Pumps	Bell & Gossett	Series 60
	Air Cooled Chiller	McQuay	ALS-155
	Heating Hot Water Boiler	Cleaver Brooks	FLX700
	Infrared Radiant Heaters	Aitkin Products	OH-2027
16400	Service & Distribution		
	Main Switchboard	Westinghouse	Series C
	Safety Switches	General Electric	"SPECSETTER"
	Transformer	MGM	HT
17614	Valves		
	Butterfly	Keystone Valve Inc.	AR1-AR2

Recommendations:

None

CLOSE-OUT DOCUMENTS

As part of the final review process at the campus, KPMG visited the engineering office and found that the warranties, operating and maintenance manuals and as-built drawing were received and on file at the campus.

Recommendations:

None

Memorandum

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

Date: August 17, 2000

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

RECEIVED
University Auditor

AUG 22 2000

Subject: **Audit Report**
Moss Landing Marine Laboratories, SJ-200R
California State University

The California State
University

I am pleased that the overall report is positive and found 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.

Contractor Compliance – Subcontracting Practices

Recommendations:

1. We agree. The Subcontractor Status Report, initiated in January 2000, will be a helpful tool in policing compliance with the contract and statute requirements.

Change Orders

Recommendations:

2. We agree, however adequate reports are the responsibility of the Construction Administrator per existing procedures. If reports are not required by the services provider, then the Construction Administrator shall produce the reports. This happens when a Project Manager is not used or is not retained until completion of a project. We will add requirements to SUAM by November 30, 2000, to strengthen the requirement that adequate records or reports must be maintained by the project management team.
3. Time and materials change orders are done only as necessary to accommodate the schedule, lack of agreement in cost, or, as in this case, because the cost cannot be fairly determined in advance. Contract procedures require daily submittal of time and materials records for verification. Costs are determined upon reconciled daily records.

Assigning individual account numbers to time and material changes is normal practice, but does not require being specified.

4. We agree. We will either make modifications to CPM by November 30, 2000.

Design Costs

Recommendations:

5. CPDC and the AE firm have reviewed the contract, extra services, and payments to date, and they have agreement that the contract will be paid in full upon the release of the final Record Drawing fee component that is currently being withheld.

Future projects will be administered with an improved CPM system to track AE invoices in greater detail, and the system will be improved by November 30, 2000.

6. We agree. We will implement procedures for future projects by November 30, 2000.

Project Management Services

Recommendations:

7. We agree, however adequate reports are the responsibility of the Construction Administrator per existing procedures. If reports are not required by the services provider, then the Construction Administrator shall produce the reports. This happens when a Project Manager is not used or is not retained until completion of a project. We will add requirements to SUAM by November 30, 2000, to strengthen the requirement that adequate records or reports must be maintained by the project management team.
8. CSU standard practice is to have the general contractor provide a temporary office and equipment for use by the Project Manager and/or Inspector(s) whose services are acquired under contract. This has proven to be the most economical means of acquiring the temporary equipment. This project failed to follow normal practice, and the needed equipment was provided as extra costs via the Project Management Service Agreement. We will add guidance to SUAM by November 30, 2000.
9. We disagree. Using one individual to provide project management and inspection services for both projects at the same site was a prudent way to

Memo to Mr. Mandel
August 17, 2000
Page Three

conserve contract resources by eliminating duplicitous administrative processes for no perceived value. There was no reason to separate the services because it was funded by a common source of funding. Additionally, the two projects are phases of the same project.

10. It is not appropriate to calculate claim offsets versus the value of liquidated damages in determining time extensions. In this case CPDC considered the preponderance of delays were not the contractor's fault, and time extension was granted accordingly.

RPW:WCH:su

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

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

August 31, 2000

CHICO

DOMINGUEZ HILLS

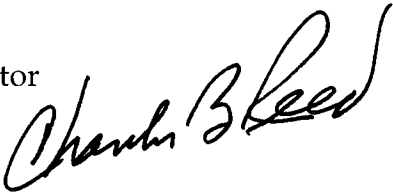
MEMORANDUM

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed 

HUMBOLDT

SUBJECT: KPMG Peat Marwick Draft Final Report on the *Moss Landing Marine Laboratories - Earthquake Replacement Project* at San Jose State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of August 30, 2000, I accept the response as submitted with the draft final report on the *Moss Landing Marine Laboratories - Earthquake Replacement Project* at San Jose State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/cw

SACRAMENTO

Enclosure

SAN BERNARDINO

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

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS