

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

SPORTS COMPLEX

Final Report

September 10, 2001

**KPMG Construction Cost Review
CPSLO – Cal Poly San Luis Obispo
SL-98-500**

PROJECT OVERVIEW

The Cal Poly – San Luis Obispo Sports Complex project was developed under a “multiple prime contracting” project delivery process. This approach, atypical to CSU capital project delivery, is discussed in detail in the next section of this report. Cal Poly Facilities Planning (FP) was responsible for the management of this project.

From a combination of non-state and Foundation monies, the project relied heavily on fund-raising throughout construction in order to maintain progress.

The initial phase of work described to bidders consisted of a baseball and softball stadium complex with a shower/locker room, offices at each stadium, three upper soccer fields and three lower multipurpose fields. Parking areas, lighting and a storage area/restroom building were also included in the project.

At the time of our review, the project was on-going although the major components had been completed. KPMG included Bid Packages 2, 3, 4, 6 and 7 (comprising over \$7.2M of the \$8.9M total construction costs) in our review. The following table summarizes bid package descriptions and construction costs (totals here are bid packages only and do not include project or construction management costs, testing, construction phase design costs, etc. that totaled approximately \$3M):

Bid Package	Description	Contractor	Commitments Thru 3/21/01
1	Abatement	Karcher	166,756
2	Earthwork/Grading	R. Burke	4,128,553
3	General Work	Specialty Construction	647,320
4	Concrete/Masonry/Access Road	Vernon Edwards	1,446,244
5	Lighting	United Utilities	1,708,189
6	Irrigation	Included in BP 3 as a CO	-
7	Landscaping	Included in BP 3 as a CO	-
8	Stadium Seating	Herk Edwards	130,431
9	FS Admin Cal Poly Managed	see note #n2	419,512
10	Restroom/Storage Building	Maino Construction	donation
11	Sound System	to be bid when funding is available	-
12	Scoreboard	THI Group, Inc + Gordian (JOC)	146,007
13	Batting Cages	THI Group, Inc + Gordian (JOC)	38,842
14	Lockers	to be bid when funding is available	-
15	FF&E + Misc. equipment + Padding + Field Accessories + Benches + Netting	Tomark Sports + Facility Services THI Group, Inc. + Gordian (JOC) + LS Steelcraft	55,378
TOTAL			8,887,232

Note: n1 This Spreadsheet was updated by Cal Poly SLO Facilities Planning on March 21, 2001
n2 To complete BP#9 a minor amount of additional work is required by Facility Services.
n3 This spreadsheet includes all Purchase Orders and Change Orders through 3/21/01.

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On July 15, 1998, the California State University Board of Trustees certified the Cal Poly Sports Complex financial plan and authorized construction in the amount of \$8,800,000. The Trustees in the 1996/1997 Nonstate Funded Capital Outlay Program had approved \$600,000 for up-front expenditures. Demolition and abatement work was bid in August 1998. In September 1998, the Sheep Unit and Rodeo facilities were relocated. On October 23, 1998, the official ground breaking took place at the Sports Complex site.

We note that, while the budget approved by the Trustees totaled \$9.4M, the total project was in excess of \$12M and was not completed at the time of our review.

Maino Construction, Hoffman & Associates, Cal Poly Facilities Planning and Environmental Health & Safety provided construction management, inspection and environmental mitigation monitoring. Edwin S. Darden Associates were the project Architects.

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

Contractors:	R. Burke Corporation Vernon Edwards Specialty Construction, Inc.
Architect/Engineer (A&E):	Edwin S. Darden Associates (ESDA)
Project Management (PM):	Maino Construction (CM) Hoffman & Associates (PM)
Architectural Files:	Edwin S Darden Associates

MULTIPLE PRIME PROCESS

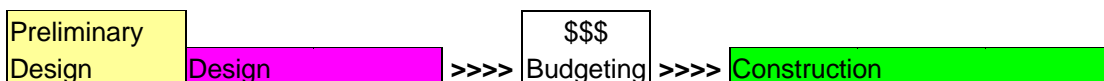
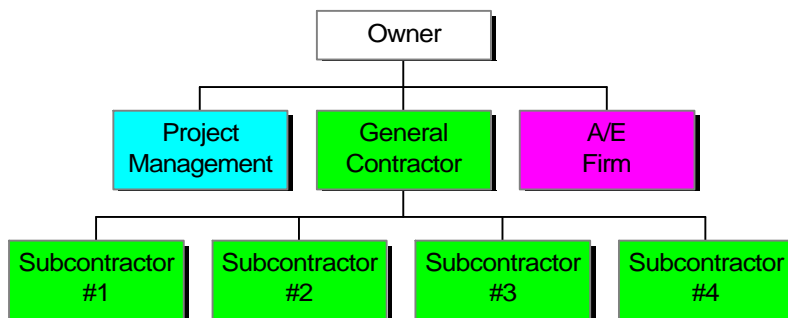
This is the first multiple-prime project reviewed as part of the CSU/KPMG construction audit program. Because KPMG modified the parameters of our established review focus consistent with the risk-based approach employed as part of our current agreement, we provide the following discussion of fundamental differences in capital project delivery between using a multiple-prime approach and CSU’s traditional approach.

CSU’s Traditional Project Delivery System

Under the traditional system, CSU contracts directly and separately with the designer and a sole contractor. Project delivery proceeds in a linear fashion, with the design being completed before construction is bid. Cost efficiencies are realized from the ability to bid the construction competitively on the basis of a firmly defined design.

The owner retains decision making authority for the selection of materials and coordinates the design with the construction. The contractor performs and supervises the construction.

CSU often adds third-party project management companies to the traditional process to mitigate the traditional flaws found throughout the construction process. The purpose of selecting a project management firm is to supplement project oversight and lower overall cost, improve schedule and quality control, regulate the constructability of the design, and to improve all other management controls, including field management. The following chart shows the organization of CSU’s traditional approach:



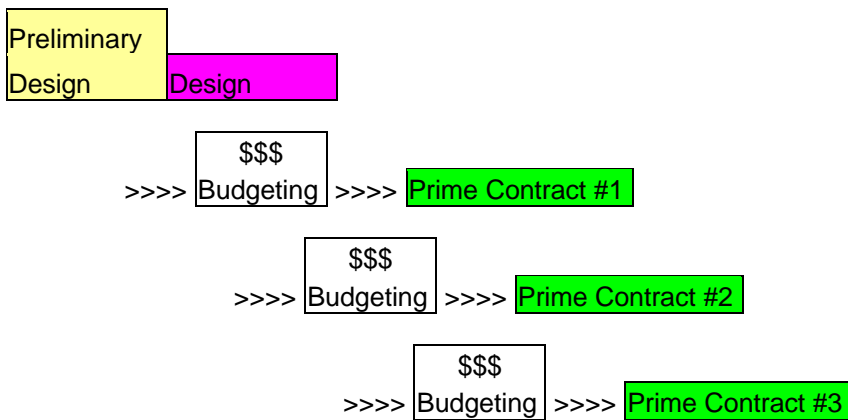
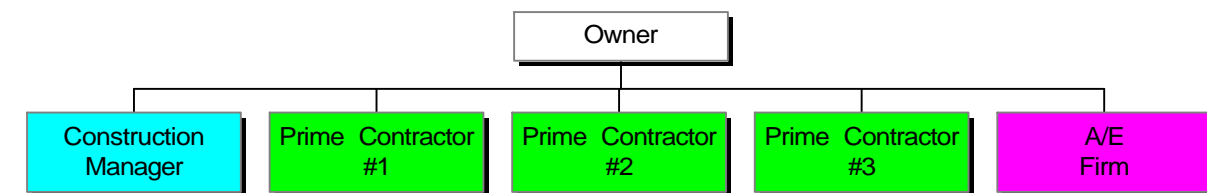
THE TRADITIONAL PROCESS

CM with Multiple Prime Contracts

With multiple contracts, Owners are able to begin projects when initial funding becomes available and add construction specialties as additional funding became available. This can considerably shorten the concept-occupancy timeline by allowing construction to begin in advance of full funding and is especially useful in time sensitive projects where full funding or donations are inevitable but delayed by circumstances or technicalities. In capital projects with a fund raising component (such as this project) it is sometime helpful to have concrete progress demonstrated in order to secure donor interest and participation.

However, with multiple prime contracting, risk also increases. Owners who choose to manage multiple contracts must manage the contracts well or take the responsibility for management failures. Consequently, most owners package contracts under a general contractor or choose a construction manager¹ to assist with multiple contracts. The general contractor may be eliminated and replaced with a construction manager who manages the project in an agency (fiduciary) capacity.

With multiple prime projects, several separate contracts are issued to general contractors to perform work either simultaneously or sequentially. The construction manager assists in the bidding process with trade contractors just as a general contractor would, beginning with items critical to the schedule and funding resources. On government work, most often the contracts are directly with the owner. In the private sector, the CM may hold the contracts as agent of the owner. The following chart shows the organization of a multiple prime process:



CM Fast-Track Multiple Primes (with an agent CM)

¹ The term "construction manager" is frequently used synonymously with "project manager." Often the term "project manager" is used with the traditional process, and "construction manager" is used with multiple-contract.
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Pros: Clients have a professional construction manager on their side. The multiple trade construction contracts are fixed-price based on complete documents with little room for change orders. Allows projects to proceed in advance of appropriation of total funds and limits change orders.

Cons: Multiple contracts can make for administrative difficulty. Obscures accountability: if one prime trade contractor damages another by delay, the owner can get caught up in the dispute. Additionally, coordination between contractors becomes unusually burdensome for the trades.

The secret of a successful multi-prime project isn't the legal security of a contract, nor has it been proven to be risk-free. Success only comes from good management. The use of outsourced professionals works well for the public sector because governments can select professionals on the basis of qualifications to replace the function of a general contractor.

KPMG Observations

Although we fully understood the reasons for implementing a multiple prime project delivery process, CSU incurred additional in-house management challenges and additional PM/CM costs than traditional construction approaches. Typically PM costs range from 2.5% to 3.5%, rather than the 9.3% incurred for this project. The project was ultimately successful (with the exception of lighting performance, discussed later) with relatively few change orders.

Recommendation:

1. Because it is more risk laden, requires significantly more sophistication to manage, and is subject to coordination challenges, CPDC should evaluate and provide appropriate guidelines and procedures for multiple prime contracting.

Management Response:

1. We agree. We will implement procedures and include in our March 2002 Construction Management Procedures training session.

CONSTRUCTION BID PROCESS

Due to the multiple bids, numerous construction contracts, and local access to contractor's records, KPMG included local contractors responsible for Bid Packages 2, 3, 4, 6 and 7, in the scope of our work.

Bid Package 2 – Earthwork (Included Landscaping & Irrigation)

Bid Package 2 was the Earthwork package. The Earthwork bid was conducted on November 5, 1998. This portion of the project was estimated at \$3,275,000. Six bidders were listed on the Abstract of Bids. The low bidder, R. Burke Corporation, submitted a base bid in the amount of \$2,862,000. A construction contract in this amount was awarded on November 19, 1998.

Three bidders submitted pricing June 13, 1999, when Bid Packages 6 and 7 (landscape and irrigation) were ready. R. Burke submitted the lowest pricing and was successful for these two additional bid packages. Eventually Bid Packages 6 and 7 were incorporated as change orders to the original Burke contract and will be discussed in the Change Order section of this report.

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed.
- R. Burke furnished an appropriate Payment and Performance Bond in the original contract amount as required.
- R. Burke is a California Corporation.
- The original construction period was to cover 555 calendar days.
- Liquidated damages were stated to be \$1,000 per day.
- Notice to Proceed was given on December 28, 1998 (Updated January 6, 1999), with a start date of January 7, 1999.
- Original completion was established as July 10, 2000.
- Notice of Completion was recorded on December 26, 1998 and accepted on January 17, 2001.
- An extension of 191 days was included in the settlement change order that extended the date to actual completion.

Bid Package 3 – General Construction

The General Construction bid was conducted on December 10, 1998. This portion of the project was estimated at \$500,000. Five bidders were listed on the Abstract of Bids. The low bidder, Specialty Construction, submitted a base bid in the amount of \$483,000. A construction contract in this amount was awarded on January 8, 1999.

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed.
- Specialty Construction furnished an appropriate Payment and Performance Bond in the original contract amount as required.

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- Specialty Construction is a California Corporation.
- The original construction period was to cover 530 calendar days.
- Liquidated damages were stated to be \$1,000 per day.
- Notice to Proceed was given on February 3, 1999, with a start date of February 9, 1999.
- Original completion was established as July 23, 2000.
- Notice of Completion was recorded as October 25, 2000.
- An extension of 82 days was included in the settlement change order that extended the completion date to October 13, 2000, five days short of the actual completion.

Bid Package 4 – Concrete

The Concrete bid was conducted on December 10, 1998. This portion of the project was estimated at \$1,000,000. Two bidders were listed on the Abstract of Bids. The low bidder with a 5% Small Business Advantage, Vernon Edwards submitted a base bid in the amount of \$1,196,710 and was awarded a construction contract.

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed.
- Vernon Edwards furnished an appropriate Payment and Performance Bond in the original contract amount as required.
- Vernon Edwards is a California Corporation.
- The original construction period was to cover 530 calendar days.
- Liquidated damages were stated to be \$1,000 per day.
- Notice to Proceed was given on February 3, 1999, with a start date of February 9, 1999.
- Original completion was established as July 23, 2000.
- Notice of Completion was recorded as October 25, 2000.
- An extension of 87 days was included in the settlement change order that extended the date October 18, 2000.

CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

Bid Package 2 – Earthwork (Included Landscaping & Irrigation)

For this contract, the "List of Proposed of Subcontractors" (CM Form 701.04) and the "Expanded List of Subcontractors" (CM Form 701.04A) included the same three subcontractors. We found no substitutions. All subcontracts over \$14,310 should be listed. The legal requirement to list subcontractors protects the integrity of state bidding processes and prevents prime contractors from bid shopping a listed subcontractor. The requirement forces the prime to utilize the services of the listed subcontractor. Public Code 4106 states that if no subcontractor is listed and "if after award of contract, the prime contractor subcontracts, except as provided for in Sections 4107 or 4109, any such portion of the work, the prime contractor shall be subject to the penalties named in Section 4111." It is the right of any subcontractor to protest that a subcontractor was not listed if the work exceeded more than ½ of 1% of the bid. The following subcontracts in excess of ½ of 1% were not listed but since the issuance of these subcontracts were a result of change order work, the listing process is superceded and not required by Public Contract Code:

- Quaglino Roofing (retaining wall waterproofing) - \$31,538
- S. J. Souza (concrete for pathways) - \$96,088

R. Burke cooperated with the subcontractor bid review process and provided all relevant documentation. In most cases, R. Burke prepared in-house estimates for each trade of work and compared those to a subcontractor bid(s). We examined the following trades:

- **Masonry:** Two bids were received in the amounts of \$35,700 and \$45,440. The subcontractor Curt Bailey Masonry submitted the low bid and was awarded a subcontract.
- **Staking Plans:** Burke solicited four bids ranging from \$56,000 to \$67,500. They listed and subcontracted with the second lowest bidder in the amount of \$56,800.
- **Fencing/Backstops:** Three bids were received ranging from \$175,980 to \$229,875. The second lowest bidder was listed and issued a subcontract in the amount \$212,790.

Bid Package 3 – General Construction

The "List of Proposed Subcontractors" (CM Form 701.04) and the "Expanded List of Subcontractors" (CM Form 701.04A) included the same 10 subcontractors. We found that one subcontractor had been substituted. Malott Metal Craft had been the listed subcontractor. Specialty Construction's files contained documentation that they had terminated the subcontract for non-performance on September 15, 1999. Specialty entered a new contract with Mid Coast Mechanical in October 1999. The request for substitution and the University's approval of the substitution was not initiated until October 25, 2000. This may have been in response to the notification of the KPMG review. The timing of the approval is not in accordance with Public Contract Code Section 4100.

Bid Package 4 – Concrete

Vernon Edwards self-performed the concrete work in Bid Package 4. There was only one subcontractor included in the project.

We note that with respect to this section, it has been standard practice for CSU to rely on the contractor and subcontractors to comply with Public Code 4100. Subsequent to the review of this project, SUAM (revised 11/00) now requires the University to:

...police the use of subcontractors. The University shall compare a subcontract status report with the Expanded List of Subcontractors. If any listed firms have been substituted without approval in accordance with Public Contract Code, Section 4107(a) (SUAM, Section 9821), penalties are applicable per Public Contract Code, Section 4110 (SUAM, Section 9823).

We note that in each of the bid packages reviewed the campus relied on the contractor to list and request substitutions in accordance with statute and in the cases of bid packages 2 and 3 there were violations of statutory requirements.

Recommendation:

2. The University should approve subcontractor substitutions prior to actual substitutions by the general contractor.

Campus Response:

2. We concur. The current SUAM requirement for closely monitoring subcontractors was adopted after the Sports Complex project was nearly complete. The Contract General Conditions (March 1997) used for the Sports Complex did not require the current level of monitoring of the subcontractors.

To implement this recommendation, a checklist to monitor contractor substitutions will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

CONSTRUCTION CHANGE ORDERS

Due to the multiple prime approach employed on this project and phased bidding, some work was added by change orders to existing subcontracts already in place covering work in progress. There is the potential that contractors may exceed their bonding capacity due to the increased overall contract amount with changes. Even though it is normal that a contractor would ensure against this, it would be prudent business practice that the university confirm this with the surety companies.

Bid Package 2 – Earthwork (Included Landscaping & Irrigation)

There were 11 change orders totaling \$1,277,482 incorporating 77 Change Proposals (CPs) approved throughout the project. These changes added 44.64% to the contract amount. Included in the total change orders was Bid Package 6 and 7 that represented an additional scope of work for irrigation and landscaping. The work was bid with three bidders and since R. Burke was the low bidder, a change order in the amount of \$993,353 was issued against the base contract. Excluding this change order from the total, change orders would have added 9.9% to the contract amount. The Hoffman & Associates change order log accurately reflected the reasons for changes. Following is an analysis of all changes by reason code:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	\$ 73,834	5.78%	2.58%
4.2 Unforeseeable job site conditions	87,428	6.84%	3.05%
4.3 Regulatory agency, bldg. code, safety, health	-	0.00%	0.00%
4.4 Originated by the University	122,867	9.62%	4.29%
4.4 Originated by the University - Bid Pkg 6 & 7 (CO1)	993,353	77.76%	34.71%
4.5 Unavailability of specified materials	-	0.00%	0.00%
4.6 Other	-	0.00%	0.00%
Total Change Orders	\$1,277,482	100.00%	44.64%
Original Contract Amount	2,862,000		
Total	\$4,139,482		

KPMG reviewed all 11 Change Orders in order to determine how pricing was established. Of the 11 changes, the following amounts were priced as bid alternates or negotiated lump sum amounts.

CO 1	Bid Package 6/7	\$993,353	Bid and added to Burke's contract
CO 3	Excavation and Drainage	(\$30,290)	Lump sum credit
CO 3	Scope Reduction	(\$30,102)	Lump sum credit
CO 3	Alternate #9	(\$93,693)	Alternate
CO 3	Changing Sand Type	\$136,975	Lump sum add
		\$976,243	

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We performed an extensive review of Time & Material (T&M) change orders as well as quoted changes. In all cases, we found that the R. Burke priced equipment rental at hourly rates. An operator cost of approximately \$60 was included in the hourly rates. Hourly rental rates were compared with daily rates furnished by other local vendors since Burke only provided hourly rates. Even though the University relied on a project management firm to review rental rates, it is preferable that contractors charge daily rates when it is economically beneficial on change orders costs. We found that a significant reduction in rental costs would have been realized if the equipment had been charged at daily rates. In most cases, rental costs would have been reduced by 60%, exclusive of the labor included. The following is a comparison of typical equipment rental:

Equipment	Hourly Rate	8 Hrs	Daily Rate	Difference	Percentage Overcharge
Diesel Forklift 8,000#	31	248	156	92	58.97%
Gas Forklift 12,000#	26	208	130	78	60.00%
Gradall R/T 8,000# Diesel	69	552	346	206	59.54%
Level Laser Beam	8	64	38	26	68.42%
Pump 4"	12	96	61	35	57.38%
Saw Abrasive Electric 20"	9	72	43	29	67.44%
Skip Loader, Diesel 40 HP	43	344	215	129	60.00%
Tractor, Bobcat	36	288	180	108	60.00%
Truck, Pick-Up 3/4 Ton	19	152	94	58	61.70%
Welder, Diesel SA250D	18	144	92	52	56.52%
Average % Surcharge for Daily Use					61.00%

T&M and estimated changes included \$32,454 for labor, rental costs and material. Included in this was \$18,261 in rental charges. We prepared the following table to show where consecutive rental days and full-day rental periods were charged using hourly rates. The University would have realized approximately a \$2,400 savings in rental costs. Although insignificant to the over project costs, we suggest that these billing rates be established at the beginning of the project. The table below shows what Burke charged and the 40% adjusted rates (cost less 60%) had they applied daily rates.

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CO #	Date	Equipment	Hours Used	Hourly Rate	Less \$60 Oper. Hr.	Rental Charged	Subtotal for Consecutive Days	Adjusted Rental 40%
8	11/29/99	Operated Cat 231-DLC Excavator	2.5	150	90	225		
8	11/30/99	Operated Cat 231 DLC Excavator	8	150	90	720		
8	12/1/99	Operated Cat 231 DLC Excavator	8	150	90	720		
8	12/2/99	Operated Cat 231 DLC Excavator	8	150	90	720	2,385	954
2	1/29/99	Operated Cat 231DLC Excavator	1	148	88	88		
2	2/1/99	Operated Cat 231DLC Excavator	4	148	88	352		
2	2/2/99	Operated Cat 231DLC Excavator	1.5	148	88	132		
2	2/2/99	Operated Cat 231DLC Excavator	1.5	148	88	132		
2	2/2/99	Operated Cat 231DLC Excavator	1	148	88	88		
2	2/2/99	Operated Cat 966C Loader	3.5	113	53	186		
2	2/2/99	Operated Cat 966C Loader	3.5	113	53	186		
2	1/29/99	Operated JD410D Backhoe	7	90	30	210		
2	2/1/99	Operated JD410D Backhoe	4	90	30	120		
2	2/2/99	Operated JD410D Backhoe	3.5	90	30	105		
2	2/2/99	Operated JD410D Backhoe	3.5	90	30	105		
2	2/2/99	Operated JD410D Backhoe	1.5	90	30	45	1,748	699
5	estimate	Operated JD710D Backhoe	16	95	35	560	560	224
7	estimate	Operated JD710D Backhoe	20	95	35	700		
7	estimate	Operated JD710D Backhoe	16	95	35	560	1,260	504
						5,953	5,953	2,381

We also found the labor burden to be overstated. We reviewed actual general ledger costs for payroll taxes and insurance and compared it to total company field wages for the year. The contractor charged 35% on all labor. Actual costs for payroll taxes and insurance was 18%.

For the T&M changes and the estimated changes that included cost detail, we found labor was overcharged by \$1,787. Although total labor was insignificant in the approved change orders, we found the burden to be overstated by 94%. The following is an analysis of all T&M and estimated changes where backup was included:

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CO #	Date	Title	Hrs.	Rate W/35%	Labor W/35%	Labor W/18%
2	1/29/99	Operator	7	58	406	355
2	1/29/99	Foreman	2	70	140	122
2	2/1/99	Operator	4	58	232	203
2	2/1/99	Foreman	3.5	70	245	214
2	2/2/99	Operator	2.5	58	145	127
2	2/2/99	Foreman	2	70	140	122
2	2/2/99	Teamster	3	50	150	131
2	2/2/99	Operator	2.5	58	145	127
2	2/2/99	Foreman	2	70	140	122
2	2/2/99	Teamster	3	50	150	131
2	2/2/99	Foreman	1	70	70	61
2	1/29/99	Pipelayer	2	45	90	79
2	1/29/99	Pipelayer Foreman	2	66	132	115
2	2/1/99	Operator	4	60	240	210
2	2/1/99	Foreman	3.5	70	245	214
2	2/11/99	Operator	5.5	58	319	279
2	2/11/99	Foreman	1	70	70	61
2	2/24/99	Misc			(118)	(103)
5	estimate	Foreman	2	70	140	122
5	estimate	Trencher	8	60	480	420
5	estimate	Pipelayer	2	141	282	246
5	estimate	Foreman	4	70	280	245
5	estimate	Laborers	4	94	376	329
5	5/21/99	Foreman	1	70	70	61
5	5/21/99	Labor Frm	2.5	60	150	131
5	5/21/99	Laborers	5	47	235	205
5	5/18/99	Foreman	2	70	140	122
5	5/18/99	Pipelayer	4	47	188	164
5	5/19/99	Labor Frm	8	60	480	420
5	5/19/99	Laborers	8	47	376	329
5	5/20/99	Pipelayer	1	47	47	41
5	5/20/99	Laborers	1	47	47	41
5	5/20/99	Labor Frm	8	60	480	420
5	5/20/99	Laborers	8	47	376	329
5	estimate	Foreman	-8	70	(560)	(489)
5	estimate	Trencher	-8	60	(480)	(420)
5	estimate	Pipelayer	-32	46	(1,472)	(1,287)
5	estimate	Foreman	16	70	1,120	979
5	estimate	Pipelayer	16	47	752	657
7	estimate	Foreman	20	70	1,400	1,224
7	estimate	Pipelayer	20	46	920	804
7	estimate	Foreman	16	70	1,120	979
7	estimate	Pipelayer	16	46	736	643
7	estimate	Pipelayer	16	46	736	643
7	10/6/99	Foreman	1	70	70	61
7	10/6/99	Pipelayer	3	46	138	121
7	10/6/99	Pipelayer	3	46	138	121
8	11/29/99	Foreman	1	73	73	64
8	3/21/00	Foreman	5	70	350	306
8	3/21/00	Pipelayer	5	48	240	210
8	3/21/00	Pipelayer	5	48	240	210
8	3/23/00	Foreman	5	70	350	306
8	3/23/00	Pipelayer	5	48	240	210
8	3/23/00	Pipelayer	5	48	240	210
8	11/30/99	Foreman	1	73	73	64
8	12/1/99	Foreman	1	73	73	64

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10	estimate	Foreman	4	70	280	245
10	estimate	Pipelayer	4	47	188	164
10	estimate	Pipelayer	2	70	140	122
					14,193	12,406

A more significant overcharge is the 35% presumably included in the lump sum quotes that do not show a breakdown between labor, burden, material, subs, etc.

Bid Package 3 – General Construction

There were six change orders totaling \$164,320 incorporating 16 Change Proposals (CPs) approved on the project. These changes added 34.02% to the contract amount. Included in the change orders was the addition of a Toilet/Team Room in the amount of \$127,566 for which Specialty Construction obtained competitive subcontractor pricing supported with a transmittal letter to the University. KPMG did not determine whether this addition to the contract represented an *expansion* of the scope of the project as presented to the Trustees or was merely a *clarification* of the project plan. Excluding this change order from the total, change orders would have added 7.56% to the contract amount. Following is an analysis of all changes by reason code:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	\$ 26,435	16.09%	5.47%
4.2 Unforeseeable job site conditions	738	0.45%	0.15%
4.3 Regulatory agency, bldg. code, safety, health	-	0.00%	0.00%
4.4 Originated by the University	9,581	5.83%	1.98%
4.4 Originated by the University - Toilet/Team Room	127,566	77.63%	26.41%
4.5 Unavailability of specified materials	-	0.00%	0.00%
4.6 Other	-	0.00%	0.00%
Total Change Orders	\$ 164,320	100.00%	34.02%
Original Contract Amount	483,000		
Total	\$ 647,320		

Of the six change orders, we were able to trace all 17 subcontractor quotes to actual change orders issued against subcontracts.

Bid Package 4 – Concrete

There were seven change orders totaling \$249,534 incorporating 21 Change Proposals (CPs) approved on the project. These changes added 20.85% to the contract amount. Included in the change orders was the addition of a Toilet/Team Room in the amount of \$59,017 and the Irrigation System in the amount of \$159,920 for which Vernon Edwards obtained competitive subcontractor pricing. As noted above, the Toilet/Team Room was a contract addition. The portion of the irrigation system (not included in bid packages 6 and 7) involved the main irrigation lines. Excluding these two change orders from the total, change orders would have added 2.55% to the contract amount. KPMG conducted a review of the remaining changes that

**KPMG Construction Cost Review
CPSLO – Cal Poly San Luis Obispo
SL-98-500**

represented 2.55% of the contract amount. Vernon Edwards self-performed most of the work and did not utilize subcontractors. Following is an analysis of all changes by reason code:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	\$ 13,104	5.25%	1.10%
4.2 Unforeseeable job site conditions		0.00%	0.00%
4.3 Regulatory agency, bldg. code, safety, health	-	0.00%	0.00%
4.4 Originated by the University	17,493	7.01%	1.46%
4.4 Orig by University - Toilet/Team Room, Irrigation	218,937	87.74%	18.29%
4.5 Unavailability of specified materials	-	0.00%	0.00%
4.6 Other	-	0.00%	0.00%
Total Change Orders	\$ 249,534	100.00%	20.85%
Original Contract Amount	1,196,710		
Total	\$1,446,244		

Again, we found labor burden to be overstated. According to the University permitted Vernon Edwards to use an R.S. Means estimate for workman’s compensation that was 28%. From an audited workman’s compensation premium obtained at the contractor’s office, actual workman’s compensation premiums were 3% of labor. Below is a chart that compares Vernon Edwards burden charged on change orders to adjusted actuals:

Burden Item	Rate Charged	Adjusted Rate	Difference In Rates
FICA	7.90%	7.65%	0.25%
Federal Unemployment	1.00%	0.80%	0.20%
State Unemployment	3.40%	3.40%	0.00%
Employer Training Tax	0.10%	0.00%	0.10%
Builder's Risk	0.30%	0.30%	0.00%
Liability	1.50%	1.50%	0.00%
Workman's Comp.	28.00%	3.00%	25.00%
Total	42.20%	16.65%	25.55%

Excluding the two lump sum change orders for Irrigation and the Toilet/Team Room, there was \$16,174 charged for labor in the remaining five change orders. Had the burden rate been applied at actual cost, the University would have recognized a \$2,906 ($\$16,174 / 1.4220 \times 25.55\%$) savings on changes. Although total labor was insignificant in the approved change orders, we found the burden to be overstated by 253%.

Recommendations:

- Daily, weekly or monthly rental rates should be applied when applicable.
- For general contractors and major subcontractors, CPDC should include guidelines for auditing labor burdens at the time construction contracts are awarded. This would establish acceptable mark-ups at the project start-up. This should be included in the construction procedural manual distributed to the campuses.

Campus Response:

3. We concur. The University followed the correct procedures during the Sports Complex project. Contract General Conditions 6.01.c (3) Equipment “for equipment owned, furnished, or rented by Contractor, no cost therefore shall be recognized in excess of the rental rates established by distributors or equipment rental agencies in the locality where the work is performed.” The Construction Administrator checked local rental rates and the equipment rental rates paid to the contractors were in accordance with Article 6 of the Contract General Conditions.

By January 1, 2001, the campus will provide documentation that summarizes the review conducted by the Construction Administrator to assure that local rental rates and the equipment rental rates paid to the contractors were appropriate.

Management Response:

4. We agree. We will implement procedures for future projects by November 30, 2001.

**KPMG Construction Cost Review
CPSLO – Cal Poly San Luis Obispo
SL-98-500**

DESIGN COSTS

Edwin S. Darden Associates, Inc. was the architect of record for the Sports Complex project. The original design agreement in the amount of \$419,390 represented 6.45% of the original construction estimate of \$6,500,000. The original agreement was executed October 30, 1996, between the A/E and the Campus Foundation. The final construction budget totaled approximately \$9,000,000.

The increase in design costs appears to be proportionate to the increased construction costs. We found that base contract and extra service costs were appropriately paid according to the agreement. The breakdown for base contract services is as follows:

Base Contract Scope	Amount
Schematic Design	79,684
Design Development	50,327
Construction Documents	168,553
Bidding Phase	16,859
Construction Administration	103,967
Total Base Contract	419,390

We performed a comprehensive review of the eight additional services and invoices processed (Nos. 6 and 9 were for internal use only). Including additional services, total design fees were approximately 7.9% (\$719,000/construction of \$9,000,000), which is within the CSU standard fee grid. We were able to track all payments. At the time of our review, all had been paid in full with the exception of three. Below is an analysis of this review:

Add. #	Description	Authorized	Paid	Balance
1	Design of Locker Rooms	13,077	13,077	-
1	Design of Rest Rm/Team Rm	12,904	12,904	-
1	Design Development - Deduct Work	7,552	7,552	-
1	Design Development Response	14,741	14,741	-
1	Stadium/Multi-Purpose Fields Rev.	38,273	38,273	-
1	Added Items During Design Dev.	15,214	15,214	-
1	Public Address/Sound Consultant	18,214	18,214	-
1	Structural Review of Rest Rm. Bldg.	480	480	-
1	Additive Alternates	9,846	9,846	-
1	Reimbursables	10,000	10,000	-
1	DSA Plan Check	1,511	1,511	-
2	Soil Sampling/Assessment	7,260	7,260	-
3	Extra Service Bidding Phases	22,393	22,393	-
3	Extra Service Construction Phases	62,471	62,471	-
3	Additional Insurance	13,761	13,761	-
4	FI #16 Sand Fill	6,654	6,654	-
4	Additional Reimbursables	13,600	9,275	4,325
5	Fixtures, Furnishings, Toilet/Team Rm.	17,501	17,501	-
7	Bid Packages for FF&E's	9,300	7,987	1,313

KPMG Construction Cost Review
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SL-98-500

8	ASI Score Keeper Structures	4,000	3,500	500
10	Athletics/Asphalt Paving & Drain	1,070	1,070	-
		299,823	293,685	6,138

Recommendation:

None

PROJECT MANAGEMENT SERVICES

Two consulting firms were utilized on the project due to the complexity of the construction processes. Maino Construction provided construction management services for the multi-prime process and maintained a staff on site. Hoffman & Associates provided additional project management and inspection services. Maino Construction also donated services to construct a Restroom/Storage facility. We find it inappropriate that the same firm donating services is billing hourly to manage construction activity.

It is a CSU standard to reimburse expenses on actual costs supported with receipts. The Maino contract stated that, “Expenses for materials shall not exceed the actual values listed in Exhibit D of this agreement and shall be invoiced monthly with a copy of the receipts.” KPMG found that receipts for such expenses were not attached to the invoices. However, in the Maino agreement the University agreed to *per diem* expenses of \$97.22/day for an 18-month period. We question why the Campus apparently agreed to waive the requirement for documentation of expenses up to the \$97/day threshold. In addition, the per diem included a 15% mark-up on Marino *estimated* expenses. It is non-standard CSU practice to pay mark-up on PM expenses.

Maino’s agreement was executed to cover an 18-month period. In addition, although the contract limited per diem payments to 18 months, invoices were billed and paid for per diems beyond the stipulated 18 months without contractual amendment. The total of expenses claimed by the PM firm was \$67,082. Below is a recap of total costs against the contract estimate:

Maino Construction

Employee	Original Budget	Actual Costs	Variance
Sr. PM	57,900	44,625	13,275
PM	151,312	150,010	1,302
Engineer	154,400	176,525	(22,125)
Super	159,650	144,140	15,510
Principal	30,880	41,250	(10,370)
Comptroller	7,720	10,425	(2,705)
Accounting	18,528	9,720	8,808
Secretarial	18,528	5,325	13,203
Gen Supervision	18,528	480	18,048
Expenses	52,498	67,082	(14,584)
Total	669,943	649,581	20,362

The second PM firm reviewed was Hoffman Associates. The original project management and inspection agreement was executed on December 17, 1998 in the amount of \$170,000. Two additional services were authorized totaling \$50,000; one for \$30,000 to cover a turf consultant and soils testing and another for \$20,000 to cover additional costs associated with lighting performance issues. We reviewed all 10 invoices relating to the \$30,000 for the consultant (there had been no invoices billed against the \$20,000 additional service). Hoffman appears (on four invoices we found with back-up) to charge a 15% mark-up on sub-consultants. The agreement is silent on the issue of such mark-up.

**KPMG Construction Cost Review
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SL-98-500**

Additionally, the agreement did not require that reimbursable expenses were to be supported with receipts. Upon our request, receipts were provided. Our review indicated that no mark-ups were charged on Hoffman’s these expenses. The project agreement and payments are as follows:

Hoffman Associates

Employee	Original Budget	Actual Costs	Variance
Construction Administrator	89,700	127,746	(38,046)
Inspector	77,064	28,938	48,126
Clerk	1,755	5,524	(3,769)
Expenses	1,481	2,179	(698)
Subtotal	170,000	164,387	5,613
Extra - Consultants	30,000	21,139	8,861
Extra - Lighting	20,000	-	20,000
Total	190,000	164,387	25,613

KPMG excluded the outside consulting and lighting from Hoffman’s contract when comparing services rendered to total construction costs. Total fees contracted for construction management services were \$839,943 (\$669,943 plus \$170,000) and represented 9.33% of the total construction budget of \$9M. This percentage is much higher than industry standards of 2.5% to 3.5% for project management/inspection services. Part of this is directly attributable to the project delivery process. The table below places the project PM fees in the context of other projects reviewed as part of our CSU construction assurance work:

Project	Final Construction	Final PM Costs	Percent	Year
SL-98-500	9,000,000	839,943	9.33%	00-01
LB-610	10,651,263	680,000	6.38%	98-99
HA-434	8,908,995	360,878	4.05%	99-00
ST-462	13,040,983	501,048	3.84%	98-99
SJ-535	22,754,755	783,431	3.44%	99-00
SF-454	8,848,007	297,277	3.36%	97-98
PO-261	23,642,238	736,330	3.11%	00-01
CH-604	8,890,473	245,000	2.76%	99-00
SD-965R	32,521,297	860,892	2.65%	97-98
LA-443	22,895,615	602,705	2.63%	00-01
HU-437	8,885,916	224,243	2.52%	99-00
SL-475	26,084,489	590,187	2.26%	98-99
NO-496R	24,271,292	531,500	2.19%	98-99
SF-476	27,847,804	543,477	1.95%	98-99
LA-442	18,881,340	336,340	1.78%	97-98
CO-627B	26,112,338	459,451	1.76%	98-99 (Pre Completion)
SJ-200R	13,795,810	190,000	1.38%	99-00 (Limited Scope)
SM-460	12,534,361	160,643	1.28%	99-00 (Limited Scope)
SD-001-98	17,916,852	114,286	0.64%	00-01 (Limited Scope)
LB438	(Not Evaluated)			97-98 (Not Evaluated)
Totals	337,483,828	9,057,631	2.68%	

Recommendations:

5. CPDC should provide guidelines in SUAM that limit campuses from hiring contractors for construction services that concurrently provide consulting services.
6. The University should ensure that invoices are not processed until appropriate contractual requirements are followed.
7. Where practical, the University should reimburse expenses to consultants based on actual costs rather than a per diem rate and when per diem rates are used they should reflect reasonable costs and should not include vendor mark-ups.
8. The University should issue amendments to accurately reflect the time frame that services will be rendered by consultants.
9. University agreements with PM firms should clearly stipulate agreements on mark-ups for sub-contracts and expenses.

Management Response:

5. We agree. We will implement in SUAM by November 30, 2001.

Campus Responses:

6. We concur. All contractual requirements were in place and followed for payment requests on the Sports Complex project with one exception: backup paperwork (that is normally not required) was not submitted by a consultant in a timely manner. University has procedures in place to ensure that invoices are not processed until appropriate contractual requirements are fulfilled.

To implement this recommendation, a checklist to monitor contractual requirements will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

7. We concur. However, consultant mark-ups should be in accordance with industry standards. On the Sports Complex Project, the University used these procedures and the mark-ups were in accordance with industry standards.

To implement this recommendation, a checklist to monitor consultant reimbursements will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

8. We concur. When the construction phase was extended, the paperwork issuing a “zero” dollar increase in consultant’s fee, related to the increased time for the construction phase, was not immediately issued to the consultants. The University has developed procedures to insure that amendments to the contract time frame for consultants are issued in a timely manner.

To implement this recommendation, a checklist to monitor contract time frame for consultants will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

9. We concur. Future agreements with consultants will contain specific limits and detailed language addressing the mark-up for sub-contracts and expenses.

To implement this recommendation, a checklist to monitor consultant agreements mark-ups will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

LIQUIDATED DAMAGES

Bid Package 2 – Earthwork (Included Landscaping & Irrigation)

The final change order dated November 28, 2000, to Burke, extended the original contractual completion date by 191 days revising the acceptance date to January 17, 2001. The Notice of Completion indicated the same. In a February 2, 2001, memorandum Hoffman Associates recommended the extension due to the following major impacts:

- 56 days associated with rain (Burke had requested 80 days)
- 5 days to decontaminate mud from roads caused by other contractors
- 10 days to remove topsoil/remove rocks brought in by other trades
- 60 days due to coordination issues in the main concourse areas with other contractors
- At least 60 days for Change Order 1 (landscape/irrigation addition), Change Order 6 (Toilet/Team room addition), and Change Order 11 (additional asphalt due to drainage problems)

Although this memo explained the PM's position and recommendation, it was not sent to the University until 60 days after the issuance of the change order.

Bid Package 3 – General Construction

The final change order dated October 17, 2000, to Specialty, extended the original contractual completion date by 82 days revising the acceptance date to October 13, 2000. The Notice of Completion indicated October 18, 2000, as the completion date. In a February 2, 2001, memorandum Hoffman Associates recommended the 82-day extension to bring the completion date to actual due to the following major impacts:

- 56 days associated with rain (not requested)
- 60 days due to coordination issues in the main concourse areas with other contractors
- 22 days per an agreement for completion of electrical rough-in and University completion of framing and plumbing rough-in
- Change Order 2 (Toilet/Team room addition) and Change Order 6 (final cleaning after Specialty was finished with contract work)

Again, this memo was not issued to the University for more than three months after project completion.

Bid Package 4 – Concrete

The final change order dated October 31, 2000, to Vernon Edwards, extended the original contractual completion date by 87 days revising the completion date to October 18, 2000. The Notice of Completion indicated October 18, 2000, as the acceptance date. In a February 2, 2001, memorandum Hoffman Associates recommended the 87-day extension to bring the completion date to actual due to the following major impacts the extension due to the following major impacts:

- 59 days associated with rain (not requested)
- 60 days due to coordination issues in the main concourse areas with other contractors
- 28 days due to change order scope additions

Recommendation:

10. The University should make every attempt to address interim construction time extensions at the time of the delay. Although we recognize the importance of keeping projects on schedule, when substantive delays occur due to unanticipated conditions, CSU should negotiate time extensions. This approach creates a cooperative spirit and reduces final “settlement” change orders, contractor claims and trade-offs.

Campus Response:

10. We concur. The Project Management team has extensive documentation that specifies the actions that were taken to constantly monitor this issue. These actions included constantly pressuring all contractors, issuing notifications of impending liquidated damages to contractors, and reviewing these issues with Contract & Procurement Services, Administration and Finance, and CPDC.

The Sports complex project was a successful project. Even with the limited funding issues and the addition of additive alternatives, the Sports Complex project was completed in a timely manner and at a reasonable cost while providing a high quality facility for the students.

To implement this recommendation a checklist to monitor the timeliness of change orders will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

Memorandum

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

Date: October 4, 2001

Revised: October 17, 2001

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

RECEIVED
University Auditor

OCT 12 2001

Subject: **Audit Report**
Sports Complex, Project No. SL-98-500
California Polytechnic State University, San Luis Obispo

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.

Multiple Prime Process

1. We agree. We will implement procedures and include in our March, 2002 Construction Management Procedures training session.

Construction Change Orders

Recommendations:

4. We agree. We will implement procedures for future projects by November 30, 2001.

Project Management Services

5. We agree. We will implement in SUAM by November 30, 2001.

RPW:JRC:su

cc: Mr. J. Patrick Drohan
Mr. James R. Corsar
Mr. Robert Schulz

CAL POLY

California Polytechnic State University
San Luis Obispo, CA 93407

Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560

October 16, 2001

RECEIVED
University Auditor

OCT 16 2001

The California State
University

Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

Subject: Campus Response to Recommendations of KPMG Peat Marwick LLP Audit
Report on Construction Project No. SL-98-500, Cal Poly San Luis Obispo Sports
Complex.

Dear Mr. Mandel:

As requested in your letter of September 25, attached is the campus response to
recommendations of the Construction Project No. SL-98-500, Cal Poly Sports Complex.
If you have questions regarding this document, please contact Vicki Stover, Associate
Vice President for Administration, at 805-756-2171 or VStover@calpoly.edu.

Sincerely,



Frank Lebens
Vice President for Administration & Finance

cc: W. Baker
V. Stover
R. Ramirez
R. Kitamura
L. Elfrink
K. Lamoree
M. Robert
K. Webb
R. O'Donnell

KPMG CONSTRUCTION COST REVIEW
CPSLO – Cal Poly San Luis Obispo Sports Complex
SL-98-500

CONTRACTOR COMPLIANCE – SUBCONTRACTING PRACTICES

Recommendation:

2. The University should approve subcontractor substitutions prior to actual substitutions by the general contractor.

Campus Response:

We concur. The current SUAM requirement for closely monitoring subcontractors was adopted after the Sports Complex project was nearly complete. The Contract General Conditions (March 1997) used for the Sports Complex did not require the current level of monitoring of the subcontractors.

To implement this recommendation a checklist to monitor contractor substitutions will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

CONSTRUCTION CHANGE ORDERS

Recommendation:

3. Daily, weekly or monthly rental rates should be applied when applicable.

Campus Response:

We concur. The University followed the correct procedures during the Sports Complex project. Contract General Conditions 6.01.c (3) Equipment “for equipment owned, furnished, or rented by Contractor, no cost therefore shall be recognized in excess of the rental rates established by distributors or equipment rental agencies in the locality where the work is performed.” The Construction Administrator checked local rental rates and the equipment rental rates paid to the contractors were in accordance with Article 6 of the Contract General Conditions.

By January 1, 2001 the campus will provide documentation that summarizes the review conducted by the Construction Administrator to assure that local rental rates and the equipment rental rates paid to the contractors were appropriate.

PROJECT MANAGEMENT SERVICES

Recommendations:

6. The University should ensure that invoices are not processed until appropriate contractual requirements are followed.

Campus Response:

We concur. All contractual requirements were in place and followed for payment requests on the Sports Complex project with one exception; backup paperwork (that is normally not required) was not submitted by a consultant in a timely manner. University has procedures in place to ensure that invoices are not processed until appropriate contractual requirements are fulfilled.

To implement this recommendation a checklist to monitor contractual requirements will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

7. Where practical, the University should reimburse expenses to consultants based on actual costs rather than a per diem rate and when per diem rates are used they should reflect reasonable costs and should not include vendor mark-ups.

Campus Response

We concur. However, consultant mark-ups should be in accordance with industry standards. On the Sports Complex Project the University used these procedures and the mark-ups were in accordance with industry standards.

To implement this recommendation a checklist to monitor consultant reimbursements will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

8. The University should issue amendments to accurately reflect the time frame that services will be rendered by consultants.

Campus Response:

We concur. When the construction phase was extended the paperwork issuing a “zero” dollar increase in consultant’s fee, related to the increased time for the construction phase, was not immediately issued to the consultants. The University has developed procedures to insure that amendments to the contract time frame for consultants are issued in a timely manner.

To implement this recommendation a checklist to monitor contract time frame for consultants will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

9. University agreements with PM firms should clearly stipulate agreements on mark-ups for sub-contracts and expenses.

Campus Response:

We concur. Future agreements with consultants will contain specific limits and detailed language addressing the mark-up for sub-contracts and expenses.

To implement this recommendation a checklist to monitor consultant agreements mark-ups will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

LIQUIDATED DAMAGES

Recommendation:

10. The University should make every attempt to address interim construction time extensions at the time of the delay. Although we recognize the importance of keeping projects on schedule, when substantive delays occur due to unanticipated conditions, CSU should negotiate time extensions. This approach creates a cooperative spirit and reduces final "settlement" change orders, contractor claims and trade-offs.

Campus Response:

We concur. The Project Management team has extensive documentation that specifies the actions that were taken to constantly monitor this issue. These actions included constantly pressuring all contractors, issuing notifications of impending liquidated damages to contractors, and reviewing these issues with Contract & Procurement Services, Administration and Finance, and CPDC.

The Sports complex project was a successful project. Even with the limited funding issues and the addition of additive alternatives, the Sports Complex project was completed in a timely manner and at a reasonable cost while providing a high quality facility for the students.

To implement this recommendation a checklist to monitor the timeliness of change orders will be included in the Facilities Planning procedures manual scheduled to be updated by January 1, 2002.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

October 17, 2001

CHICO

MEMORANDUM

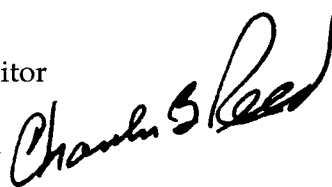
DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: KPMG Peat Marwick Draft Final Report on the *Sports Complex*
Project (SL-98-500) at California Polytechnic State University,
San Luis Obispo

LONG BEACH

LOS ANGELES

In response to your memorandum of October 17, 2001, I accept
the response as submitted with the draft final report on the *Sports*
Complex Project at California Polytechnic State University,
San Luis Obispo.

MARITIME ACADEMY

MONTEREY BAY

NORTHBRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Warren J. Baker, President
Richard P. West, Executive Vice Chancellor and
Chief Financial Officer

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS