

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

COACHELLA VALLEY CENTER – PHASE I

Final Report

October 4, 2002

**KPMG Construction Cost Review
CSU – San Bernardino Coachella Valley Center - Phase I
Foundation Project #150002-258602**

PROJECT OVERVIEW

KPMG was retained by the California State University (CSU) Office of the University Auditor to perform a review of CSU – San Bernardino’s (CSUSB or the University) Coachella Valley Center – Phase I. The 36,580 gross square feet project was constructed by the Foundation for the CSU San Bernardino (Foundation) with donor funding. Phase I consisted of a new campus complex with a 120-seat theater, teleconference and distance learning areas, an information resource center, a student union, and a bookstore. Additionally, construction included landscaping, a 250-space parking lot, and other extensive sitework.

CSUSB’s Capital Planning, Design, and Construction (CPDC) provided construction project management for a fee as a service to the Foundation. The project was developed utilizing a “Construction Management at Risk” (CM at Risk) delivery process. The Construction Manager was selected by a Request for Qualifications (RFQ).

KPMG reviewed project records from the following firms involved in the project’s development and execution:

Construction Manager at Risk (CM):	Swinerton & Walberg Builders
Architect/Engineer (A/E):	Lee, Burkhart, Liu, Inc.
Project Management (PM):	CSU-San Bernardino CPDC
Inspection (IOR):	CSU-San Bernardino CPDC American Inspection Company Sladden Engineering

Additional findings include:

- Swinerton & Walberg Builders furnished an appropriate Payment and Performance Bond in the amount of \$7,284,887 (included on C.O. #1).
- Swinerton & Walberg Builders is a California Corporation.
- Liquidated damages were stated to be \$1,000 per day.
- Several Notices to Proceed were issued for various sub-contractor work and long lead items.
- Original completion date was established in Change Order #1 as October 19, 2001.
- An extension of 61 days was granted in Change Order #2 to add deferred scope items. The completion date was extended to December 19, 2001.
- Change Order #21 granted an extension of 71 days and revised the completion date to February 28, 2002.
- Beneficial occupancy occurred on February 18, 2002, 10 days prior to the contractual completion date.
- Notice of Completion was recorded as March 5, 2002 (137 days after the original completion date).

CONSTRUCTION MANAGEMENT AT RISK DELIVERY PROCESS

This is the first CM at Risk project reviewed within the CSU construction audit program. Because the methodology changed the parameters of our established review approach, we believe that the Trustees may find it useful to understand the fundamental differences in capital project delivery between CM at Risk and a more traditional design-bid-build approach.

Under both methods, the Owner contracts directly with the Architect. Once construction begins, the Architect has standard responsibilities with either approach. The primary difference with the CM at Risk arrangement is that the CM and the Architect work together in reviewing the specifications and drawings prior to establishing the Guaranteed Maximum Price for the project. This process is intended to limit error and omission change order, and allow the CM to provide value engineering and constructability input during the projects design phase.

CSU's Traditional Project Delivery System

Under the traditional system, CSU contracts directly and separately with the designer and contractor. Project delivery proceeds in a linear fashion, with the design being completed before construction is bid. The design firm functions as the Owner's agent during construction - in theory, providing the Owner with dual safeguards - alerting the Owner to defects in the work and acting as arbiter of disputes between the Owner and the contractor which, by their nature, affect the progress of the work. The Owner retains decision making authority for the selection of materials and coordinates design with construction. The contractor performs and supervises construction under a lump-sum agreement whereby the contractor is paid a stipulated sum, regardless of their actual costs incurred in the execution of the project. The stipulated sum does not include change orders and potential claims which may result in additional costs during the course of the construction process.

CM at Risk Project Delivery System

Under the CM at Risk delivery method, the Foundation contracted directly with a single construction manager who has full responsibility for executing the project and guaranteeing the construction price. The CM is responsible for developing an approach that meets the Foundation's performance expectations, schedule and cost. The CM at Risk holds the trade subcontracts and is contractually responsible for the successful performance of the work. The existence of a Guaranteed Maximum Price or a schedule guarantee may affect the amount of risk the CM at Risk has.

DESIGN COSTS

CSUSB formed an Architect Selection Committee composed of University staff and faculty, representatives from the Coachella Valley community, a representative from the City of Palm Desert, and a representative from the Chancellor's Office. To expedite the process, eleven (11) firms out of approximately 470 CSU pre-qualified architectural firms were short-listed. The firms were selected based on the following criteria:

1. Minimum of eight staff, including five licensed architects.
2. Completion of a recent project in excess of \$5M.
3. Completion of an educational facility with administrative offices, faculty offices, teaching laboratories, and lecture classrooms.
4. Office in Southern California.

All firms were contacted by the CSUSB Capital Planning, Design and Construction and were advised to submit their qualification materials no later than November 16, 1998. Upon receipt of all the qualification packages, the Selection Committee developed a short-list of five (5) firms to be considered for interviews.

Neither the Foundation nor the University provided any formal evaluations in the project files other than one prepared by a campus representative. In a post-audit request for the committee evaluations, we were informed that the final selection for the Architect was decided by a show of hands, since it involved a number of dignitaries from the City of Palm Desert.

Recommendation:

1. The Foundation should document the process for Architect/Engineer selection and that information should be made part of the project files.

Campus Response:

1. The architect selection processes for this project were thoroughly documented and made part of the project file. The project file contains a copy of the Request for Qualification that was sent to thirteen (13) pre-qualified architectural firms, invitation letters that were sent to five firms that were selected to be interviewed, and letters sent to the five finalists documenting the decision by the Selection Committee. During the final discussions on the architect selection, representatives from the City requested that "a show of hands," in lieu of the scoring card, be used for the final decision. The Foundation deemed the request to be reasonable and as effective as the grade point scoring method. The decisions by the Selection Committee members were unanimous.

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It is unusual that members of a selection committee would include other than State or Foundation employees. Yet, the unique nature of this project in which the vast majority of funding had been provided by donors, warranted the exceptional approach.

By the end of January 2003, the Foundation will document, in a memo to the project file, the “show of hands” approach and unanimous vote outcome. Particular attention shall be made in future projects to follow the selection process indicated in the Request for Proposal.

On January 18, 2000, Lee, Burkhardt & Liu, Inc. (LBL) was awarded a \$780,680 contract to design the CSU San Bernardino Coachella Valley Center – Phase I. A proposal from Lee, Burkhardt & Lui, Inc. served as the basis for the one page signed agreement. The agreement merely defined the A/E services as “See Attached.” The attachment merely noted that the basis for services was to be a standard AIA Agreement (B141-1997 Edition). The attachment went on to note that if all parties agreed to the terms of the documents, a complete contract would be submitted for execution.

A signed architectural agreement, other than the one page proposal approval, was not found during our review of the project files. Without a formally executed agreement, the Foundation is subjected to an unnecessary level of risk. This could have easily been accomplished utilizing CSU’s standard architectural agreement.

Recommendation:

2. The Foundation should prepare an amendment letter referencing the contract agreement that describes the A/E responsibilities and scope of services and that document should be made part of the permanent project file.

Campus Response:

2. The campus will prepare an amendment letter referencing contract agreement listing A/E responsibilities and scope of services. Documentation will be part of the permanent project file.

Projected completion date: March 31, 2003

After conducting a review of LBL’s proposal, it appears that an attempt was made to base fees on the CSU Logarithmic Formula. Reference was made to building classification No. 3 with a project budget of \$7,752,650, and a parking lot classified as No. 4 with a budget of \$500,000. The fees for the building were calculated to be 9.59% and the parking lot portion of the fees was calculated at 7.44%. The combined fees totaled \$780,680, or 9.46% of the project budget.

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Utilizing the CSU fee grid, calculated A/E fees would have been \$550,452, or \$230,228 less than the amount paid to LBL. The campus provided documentation in support of additional charges for: additional presentations to the city of Palm Desert; local architect and local landscape architect; additional construction administration; master planning; and fund raising coordination and Phase II. These charges were commensurate with the fees noted above.

Recommendation:

None

The agreement was altered by the inclusion of five (5) additional services totaling \$88,221. We found that the additional services were approved by various methods including: issuance of new agreements, contract amendments, requests for professional service agreements/encumbrances, and requests for additional encumbrances. Encumbrance forms are inappropriate for contractual amendments. In four instances, the University approved the additional costs, rather than the Foundation. The following amendments were issued against the contract:

Date	Additional Service	Amount
March 8, 2001	Redesign of Verizon Service Yard	\$14,700
Based on a lump sum, issued as a Professional Agreement Request/Encumbrance approved by the University		
May 24, 2001	Redesign entry lobby and design of grand stair	\$27,044
Based on a budget of \$282,000 and a 9.59% fee, issued as a separate agreement approved by the Foundation		
May 24, 2001	Furniture layout, specification and review	\$19,750
Issued as a separate agreement on a lump sum approved by the Foundation		
August 14, 2001	Storage room addition	\$8,727
Based on a budget of \$91,000 and a 9.59% fee, issued as a separate agreement approved by the Foundation		
September 14, 2001	Redesign water distribution system	\$12,500
Based on a lump sum, issued as Amendment #1 approved by the Foundation		
April 10, 2002	Redesign and Relocation of Water Valves	\$1,200
Based on a lump sum, approved in an Encumbrance Change Request by the University		
April 10, 2002	Sewer Redesign	\$1,800
Based on a lump sum, approved in an Encumbrance Change Request by the University		

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May 23, 2002 Redesign of South Courtyard \$2,500
Based on a lump sum, issued as a Professional Agreement Request/Encumbrance
approved by the University

We performed a review of the base contract and additional services. At the time of our review, all phases of the base contract had been paid in full with the exception of \$2,050 for landscape design.

The A/E Certificate of Insurance for professional liability coverage, also known as Errors and Omissions Coverage, was provided in a post-audit request.

Recommendations:

3. The University should utilize standard formats to recommend that the Foundation authorize A/E Additional Services.
4. The University should obtain Foundation management approvals for all A/E contractual amendments in order to clearly delineate between campus projects and auxiliary projects.

Campus Responses:

3. The Foundation will use standard formats authorizing future A/E additional services.

Projected completion date: March 31, 2003

4. The Foundation will approve all A/E contractual amendments to clearly delineate between campus projects and auxiliary projects.

Projected completion date: December 2002

JMS Engineering was engaged to cover the provision of geotechnical reports and documents. JMS is the Civil Engineer under the A/E contract. Further, JMS actually subcontracted the geotechnical investigation to Sladden, the firm hired by the Foundation to provide testing and special inspection services for the project. Since construction claims often arise from information contained in geotechnical reports, better business practices would have been to hire a totally independent firm.

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Recommendation:

5. The Foundation should consider implementing a practice of hiring geotechnical firms independently of the A/E of Record.

Campus Response:

5. The Foundation will implement a practice of hiring geotechnical firms independently of the A/E of Record.

Projected completion date: December 2002

REQUEST FOR CM QUALIFICATIONS

The CSU has not prescribed clear project development guidelines for auxiliary organization projects. It is the position of the University that any project delivery method could be used if constructed by an auxiliary enterprise since they are not subject to Public Code required for Public Works projects. Because of the lack of clear guidelines, we performed our review in accordance with common industry practice rather than measuring the project against SUAM or Public Code requirements.

Even though this was a Foundation project, the University ran public advertisements soliciting the Statement of Qualifications (SOQs) that appeared to describe a CSU Public Works project. We found that this ambiguity could confuse potential submitters. A better approach would be to indicate that CSUSB was requesting the SOQs on behalf of a Foundation's non-state project. The invoices for the advertisements were also billed directly to the University rather than to the Foundation; however, we did confirm the Foundation paid the invoices.

Recommendation:

6. The University should advertise for auxiliary projects so not to infer that auxiliary projects are campus projects.

Campus Response:

6. The Foundation will advertise Foundation projects in the name of the Foundation for CSUSB.

Projected completion date: December 2002

A Request for Qualifications (RFQ) for Construction Management Services was issued in August of 2000 to construct Phase I of the Coachella Valley Campus in the City of Palm Desert. The RFQ requested a SOQ from each firm to provide construction management services at risk (CM at Risk) with a Guaranteed Maximum Price (GMP) for the Foundation. The RFQ also indicated the facility was to be a three story steel frame building with a construction budget of \$8.3 million and an initial project completion date of September 1, 2001.

Responses to the RFQ were received on September 11, 2000. Swinerton & Walberg was eventually selected as the successful CM for the project. Subsequent to the response, five Addendums were issued to show document changes and revise various specification sections. The response to the RFQ included the following seven allowances:

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• Precast Concrete (Donor) Pavers	\$5,000
• Platform Curtain and Track	12,000
• Interior Signage	8,868
• Water Consumption	40,000
• Power Consumption	20,000
• Residential Appliances	7,350
• Fugitive Dust Control	32,000
Total	\$125,218

Change Orders properly reconciled the allowances to actual costs.

Swinerton & Walberg Builders was awarded a construction contract with a zero dollar amount on December 21, 2000. Subsequently, the defined scope was added by amendment in two Change Order Requests totaling \$8,225,044.

We found the RFQ to include ambiguous and conflicting construction terminology. The contract documents were discussed with CPDC (Chancellor’s office) and we understood that the revision of the CSU standard General Conditions were expedited for the Foundation to fit the CM at Risk project delivery process.

Recommendation:

7. CPDC (Chancellor’s Office) should establish guidelines for projects undertaken by auxiliary organizations to ensure industry standard practices are followed. These should include: a) delineation of which components of campus projects should be required and enforced; and b) articulation of the responsibilities of the University in administering auxiliary organization projects.

Management Response:

7. We agree. CPDC shall develop SUAM guidelines and contract documents for projects undertaken by auxiliary organizations. These new guidelines and documents shall be presented in our July 2003 training sessions.

Discussions with the successful CM indicated that, from the initial RFQ advertisement and the contents of the RFQ, they were unclear exactly what type of contracting the Foundation intended to utilize. Subsequently, it was agreed that the project would utilize a shared savings arrangement often found in GMP contracts and proceeded with the understanding that the project would be executed under a “modified” GMP concept.

The RFQ Evaluation Committee consisted of representatives from the Foundation, CPDC (Chancellor’s office), CSUSB Capital Planning Design and Construction and the Architect of Record. Section 3 of the CSUSB CM at Risk RFQ guidelines provided the following point system for evaluation purposes:

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Coachella Valley – Phase I		Total Possible Points
CRITERIA		
Firm Experience		20
Project Organization, Personnel Experiences and Qualifications		30
Project Approach		20
Proposed Fee Schedule:		
Design Phase and Bid Phase Services	_____ %	
Construction Phase Services	_____ %	
Guaranteed Maximum Price Fee	_____ %	
Foundation Construction Contingency for Unforeseen Conditions and Foundation Requested Changes (fixed in the RFQ)	2%	10
Proposed Milestone Construction Schedule and Project Plan		20
Total Points		100

We were informed that of the five submitted RFQ’s, only three firms were interviewed. The Foundation provided only two of the five submissions. Additionally, we attempted to locate the formal evaluation but only found a typed spreadsheet that listed the Proposed Fee Schedule percentages from the five responses and a hand written note evidencing an interview meeting with the three finalists. It appeared that a final determination might have been made based solely on this meeting, which could have jeopardized the integrity of the RFQ. The University did not indicate that was the case. The three missing responses and the evaluation form were not produced in a post audit request.

Recommendation:

8. The Foundation should attempt to locate all responses and evaluations and include them as part of the permanent project files.

Campus Response:

8. A reasonable effort has been made to locate the documents with no success. The Foundation will ensure in future endeavors that records such as this are retained in the file.

In response to the public advertisements on major newspapers within the San Bernardino and Riverside counties, five (5) general contractors responded with their qualification statements submitted. Three firms were determined to meet the minimum qualifications and were invited by the Foundation to be interviewed. An Interview Committee was formed consisting of representatives of the Foundation, Chancellor’s Office, CPDC, and the University.

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During the interview, each firm was evaluated according to the criteria established in the RFQ and the scores were registered by each of the Interview Committee. Final scores of the three firms were tabulated by the summation of scores given by each of the members. As a result of this final score, Swinerton Builders was selected as the CM at Risk for the Coachella Valley Phase I project. The score cards were collected and forwarded to the Foundation Office. The score cards are now missing. Foundation staff will ensure in future endeavors that records such as this are retained in the files.

The Foundation has now contracted with the University Procurement Office for assistance with the Palm Desert Campus Phase II project to ensure that all documents are properly executed and maintained.

In our review of the RFQ and responses, we found significant discrepancies in construction terminology that made the intent of the Foundation unclear. This specifically occurred in whether the project was to be constructed under a Lump Sum or a GMP Agreement. Two industry standard methods of contracting are based on either a stipulated (or lump sum) reimbursement or a reimbursement based on actual construction cost plus a fee (either fixed or a percentage) with (or without) a Guaranteed Maximum Price. Examples of these two specific approaches to contracting can be found in the AIA document database:

- **A101/CMA-1992, *Standard Form of Agreement Between Owner and Contractor-Stipulated Sum, Construction Manager-Adviser Edition***
A101/CMA is a standard form of agreement between the owner and contractor for use on a project where the basis of payment is a stipulated sum (fixed price), and where, in addition to the contractor and the architect, a construction manager assists the owner in an advisory capacity during design and construction. Prepared for use with A201/CMA-1992, *General Conditions of the Contract for Construction-Construction Manager-Adviser*.
- **A121/CMc-1991, *Standard Form of Agreement Between Owner and Construction Manager where the Construction Manager is also the Constructor***
A121/CMc is intended for use on projects where a construction manager, in addition to serving as adviser to the owner, assumes financial responsibility for construction of the project. The construction manager provides the owner with a guaranteed maximum price proposal, which the owner may accept, reject or negotiate. Upon the owner's acceptance of the proposal by execution of an amendment, the construction manager becomes contractually bound to provide labor and materials for the project. The document divides the construction manager's services into two phases: the pre-construction phase and the construction phase, portions of which may proceed concurrently in order to fast track the process. A121/CMc is for use with A201-1997,

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General Conditions of the Contract for Construction, and B141-1997, Standard Form of Agreement Between Owner and Architect.

The General Conditions for this project (Article 3.01) states that once the parties “agree to a Guaranteed Maximum Price, the Foundation shall award a contract to the CM at Risk to construct the project for a lump sum amount.” The terms “Guaranteed Maximum Price” and “Lump Sum Amount” are contradictory in common construction terminology and refer to two very different methods for contract payment.

Guaranteed Maximum Price (GMP) indicates that construction costs are reimbursed to the contractor on the basis of actual cost expended by the contractor plus a fee for overhead and profit. Additionally, the contractor commits that the cost of the work plus the fee will not exceed a set amount, the GMP. A lump sum method of payment requires the owner to pay the contractor a fixed lump sum amount regardless of the actual cost. The RFQ did not include a sample CM at Risk agreement, so we were unable to positively determine the exact intent of the Foundation, but it appears that the project was to be built under a GMP due to some changes in the final agreement signed and the request for a GMP fee percentage included in the RFQ. If the intention had been for the project to be constructed under a Lump Sum, the inclusion of a GMP fee percentage would have been irrelevant.

The CM deleted language in the General Conditions (Article 7.02) that eliminated reduced liquidated damages should the Foundation take substantial occupancy of part or the entire project. The University discussed the savings split and the elimination of liquidated damages with the Chancellor’s Office.

A significant part of the RFQ included a 2% contingency described as a “Foundation construction contingency for unforeseen conditions and Foundation requested changes.” The CM did not track the Owner’s contingency in a line item in the GMP. However, in Swinerton & Walberg’s response to the RFQ, they also established a “holding account” in the amount of \$110,000 that was described as a contingency that will be used for any issue that could potentially threaten the contractor’s fee. The CM agreed that 100% of any unused portion of this contingency would be returned to the Foundation.

Even though the General Conditions are silent as to allowable and non-allowable costs that may be charged to the project, the CM added contractual language permitting business and/or contractor licenses. While the actual costs of these items are minimal, they are typically included in the fee for overhead and profit and should not be charged as a reimbursable cost against the project.

Due to the nature of the CM at Risk delivery process, the CM had access to thoroughly review the plans and specifications prior to pricing. Further, Article 6.01.a of the General Conditions includes the statement that “by signing the construction contract for the

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Guaranteed Maximum Price, the CM agrees that he has reviewed and accepted the construction documents as complete and that he has no right for change orders or extra work due to errors or omissions in the contract documents.” However, since this was not a Design-Build project we would expect the CM would not be responsible for technical errors that result in change orders. We found that the Foundation approved \$26,096 in changes due to errors and omissions. We did not find these changes to be in violation of the intent of developing the Guaranteed Maximum Price.

Recommendation:

None

CONTRACTOR COMPLIANCE

Swinerton and Walberg fully cooperated with our review and furnished us with numerous binders containing all subcontracts, change orders and bidding detail. They were highly professional, forthright and fair in the execution of their duties.

As previously discussed, the CM offered a shared savings arrangement, with the Foundation receiving 60% of any savings and Swinerton & Walberg retaining any balance. Further the CM agreed to return 100% of the savings from the contingency that had been set up for the CM's unforeseen conditions.

At this point the Foundation is relying on the CM's calculations of the savings and to our knowledge has not undertaken a full review of the CM's actual costs or of the CM's contingency. It is our understanding from discussions with the CM, that there is approximately \$50,000 to be returned to the Foundation, (a full review of this fund is outside of the scope of this project).

As part of the bid process review, Swinerton provided a spreadsheet and supporting documentation for each trade and the number and amounts of subcontractor bids received. We reviewed the entire bid file and found that, in most cases, Swinerton & Walberg received multiple bids for each work division. We found the bid practices employed on the project to be appropriate and in conformance with industry standards and the project delivery method utilized.

Recommendation:

None

CONSTRUCTION CHANGE ORDERS

The original contract was executed as a zero dollar (\$0) contract with the understanding that the actual contract amount would be established in a Change Order Request (COR) at a later date. COR #1 was issued on January 15, 2001 in the amount of \$7,284,887. This amount represented the majority of the work and a second COR was to be issued at a later date for the remainder of the scope. COR #12 was issued on July 11, 2001 in the amount of \$940,157. This amount represented the deferred scope items that were part of the original budget but were not a part of COR #1.

A total of 24 amendments totaling \$1,247,007 and incorporating 82 Change Order Requests, were approved on the project at the time of our review. The changes added 15.16% to the original contract amount of \$8,225,044 (\$7,284,887 + \$940,157). The majority of changes can be attributed to utility and project enhancements. As noted later in this section of the report, these were all coded to the “Other 4.6” code. The following identifies these total changes in the amount of \$1,043,036:

- Scope increase to provide master planned utility building to accommodate Phase II expansion (Verizon & Edison) – \$436,705
- Future well site and pressure reduction station. Scope increase to upgrade water and sewer mains to accommodate Phase II. (Directed by the Coachella Valley Water District) - \$152,833
- Project enhancements due to donor requests and availability of funds - \$453,498

As part of our review, we evaluated change orders and traced subcontractor estimates to the actual subcontractor change orders. The Contractor furnished all subcontract files. In the review of approximately 50% of the total change orders, all subcontractor quotes and backup to change orders issued were traced and confirmed at the Contractor level. All markups for fee and overhead were appropriately charged.

Swinerton and Walberg Builders, acting as a Construction Manager, self-performed work totaling less than 1% of the total costs charged to this project. Due to the other significant findings and additional work involved in this review for this particular project, labor burden and fringe cost reviews were not performed. This task is typically part of a complete audit of a GMP contract or when the contractor self-performs significant work on changes.

Change Order Report Analysis

The University provided a change order log that reflected the source of the majority of the 82 CORs. In a post-audit request, we requested that the University redistribute the changes charged to the “Other 4.6” category and to code \$208,125 of CORs not coded. They stated that the utility and enhancement changes did not fit the definitions of the

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other categories. They did not comment or address the non-coded CORs. The following summarizes the University’s report:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	26,096	2.09%	0.32%
4.2 Unforeseeable job site conditions	17,066	1.37%	0.21%
4.3 Regulatory agency, bldg. code, safety, health	7,617	0.61%	0.09%
4.4 Originated by the University	(54,933)	-4.41%	-0.67%
4.5 Unavailability of specified materials		0.00%	0.00%
4.6 Other	1,043,036	83.64%	12.68%
CPs Not Coded	208,125	16.69%	2.53%
Total Change Orders	1,247,007	100.00%	15.16%
Original Contract Amount	8,225,044		
Total	9,472,051		

Recommendation:

None

PROJECT MANAGEMENT/INSPECTION SERVICES

The University provided project management services for the Foundation on a fee basis with supplementary assistance by three outside firms. Both the Director of CPDC (CSUSB) and the CPDC Department were paid for services provided to the Foundation during the project. Additionally, during an early jobsite meeting, it was noted that the CSUSB's Director of CPDC would also assume the role of Inspector of Record (IOR). However, we found that two other firms were hired to provide special and mechanical/electrical/plumbing inspection.

Due to the limited scope of inspection services, the Foundation was not provided daily reports based on owner representation. This could have a potential impact should the Foundation and CM ever become involved in litigious claims. The campus relied on the CM for daily reports. Having to rely on the CM's daily reports could jeopardize the Foundation's protection.

Recommendation:

9. The Foundation should insure that daily reports are maintained on behalf of the Foundation.

Campus Response:

9. The CVC Phase I project was the first project within the system ever employed by the CM at Risk delivery and there were no written guidelines established by the Chancellor's Office at the time.

In future CM at Risk projects, the Foundation will employ an independent construction inspector and maintain independent inspection records that document the progress of work at the job site.

We have never encountered a University or a state employee receiving separate compensation for managing auxiliary projects. Attempts were made to find specific guidelines or processes for this type of reimbursement and we were unable to locate clear documentation or guidelines that did not involve policies outside the scope of this audit. However, we did review the following documents:

- Compilation of Policies and Procedures for California State University Auxiliary Organizations
 - Section 7.4 – Construction on Campus – Capital Outlay Projects*
 - Section 14.3 – Use of Campus Personnel Services*
- Finance & Treasury – Committee on Finance Public/Private (Public/Public) Real Estate Partnerships

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- Human Resources Coded Memorandum HR 97-07 (September, 1997) *Additional Employment Policy*
- Human Resources Coded Memorandum HR 2002-05 (February 19, 2002) *Additional Employment Policy*
- Human Resources Coded Memorandum HR 2002-20 (July 1, 2002) *Management Personnel Plan – Supplemental Compensation*

The Coded Memorandums did state that any additional employment must be unrelated to the employee’s primary work assignment. For example, it may be appropriate to compensate an employee to conduct a construction related off-campus seminar or retreat since these functions are probably not directly related to day-to-day management of construction.

Relating to the payments made to the Director of CPDC and the University, these additional findings were noted:

- There is no agreement between the Director and the Foundation that details the scope of services to be provided or terms for compensation.
- There is no agreement between CPDC and the Foundation that details the scope of services to be provided or terms for state reimbursement.
- “Additional Employment” appears to be controlled by the campus Human Resource Department and subject to their approval. We did not locate any Human Resource documentation or approvals in the project files.
- The Foundation provided invoices issued from what appears to be the Director’s personal company. The University Vice President for Administration and Finance and the Executive Director of the Foundation approved the invoices.
- The documentation to support the transfer of funds to CSUSB CPDC in the amount of \$60,000 consisted of a series of e-mails that essentially indicated that no documentation was required if the amount was within the 7% fees budget. (For our recommendation on this finding, see the Accounting section of this report.)

Total fees paid for inspection, scheduling and cost consulting services equaled \$165,181 representing 1.74% of total construction costs. The project management total is noticeably below industry standards of 2.5% to 3.5% due to the limited scope of services provided. Following is an analysis of all project management and IOR services paid by the Foundation:

Description	Hours	Rate	Total
Payments to Director, CPDC			
Thru 6/20/00	412	\$ 42.00	\$ 17,304.00
Payroll Taxes Foundation GJ			1,571.21
November 2000 to April 2001	285	\$ 45.00	12,825.00
April 2001 to February 2002	408	\$ 47.00	19,176.00
Subtotal			\$ 50,876.21

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Foundation Project #150002-258602

Costs transferred to CPDC			
March 2001			\$ 50,000.00
November 2001			10,000.00
Subtotal			\$ 60,000.00
Subtotal University/Personnel			\$ 110,876.21
Sladden Engineering			\$ 35,440.00
Jacobus & Yuang - Cost Consulting			\$ 9,265.00
American Inspection			\$ 9,600.00
Total Project Management/IOR			\$ 165,181.21

Recommendation:

- Specific agreements between the auxiliary and state employees should be executed on a project-by-project basis – assuming that state employees are eligible to receive compensation from auxiliary enterprises to manage capital projects in accordance with CSU system-wide Human Resource policies. Similarly, agreements between auxiliaries and University offices should be executed on a project-by-project basis.

Campus Response:

- The CSU Management Personnel Plan allows additional compensation to an employee who is performing job duties which are deemed to be extraordinary and beyond the scope of duties. The Director of Capital Planning, Design and Construction would normally supervise a project manager on a job of this size. In this instance, the Director not only continued to perform his routine duties, but also personally provided project management and inspection duties for this job, which was located 75 miles away from the main campus. The duties were extraordinary and required the Director to expend a considerable extra effort of time and expertise to perform this function, and the employee was therefore eligible for an intermittent salary adjustment for the period in which these duties were performed.

The payments, however, were not properly made. A contract between the University and the Foundation should have been drawn. The Foundation should have paid for the services provided by the University employee and the funds could have been used to pay a supplemental salary adjustment for the additional interim work provided by the employee. This process will be used if/when similar services are provided by a University employee to the Foundation.

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LIQUIDATED DAMAGES

Due to the delay in funding for various scopes of work and the conflicts between the sanitary sewer and the Coachella Valley Water District water main, the contractor requested extensions of time. The following is a recap of the changes in completion date:

Original Completion Date:	October 19, 2001
CO #2 - Deferred Scope - 61 days	December 19, 2001
CO #12 - Sewer/Water Main - 71 days	February 28, 2002
Beneficial Occupancy	February 18, 2002
Notice of Completion	March 5, 2002

Change Order #23 properly documented Beneficial Occupancy.

Recommendation:

None

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MAJOR EQUIPMENT REVIEW

The initial review of Contract Documents and Specification was performed at the University during the week of May 20, 2002. Submittal records were provided and reviewed at the CM's office. They also provided a Submittal Log, from which a sample was selected.

Of the submittals reviewed, all were traced from Project Specifications through submittal data and final acceptance. The equipment specified in Project Specifications was supported with required acceptance documentation. A project walk-through was conducted with representatives from campus personnel, the Office of the University Auditor as well as the Construction Manager in order to verify that specified and approved equipment had been provided and installed by the CM.

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

Div. #	Brand	Model #	Description
15800	Carrier	50FS104 – BJAG	Air Conditioning Unit - 1
15800	Carrier	48HJD017 – 6	Air Conditioning Unit - 3
15800	Carrier	50EK048 – 6	Air Conditioning Unit - 2
15800	Carrier	48EWD024 – 6	Air Conditioning Unit - 4
15800	Parker Boiler Co.	T1140L	Industrial Boiler
15400	A. O. Smith	BT – 65	Water Heater
8330	Overhead Door	RDA	Fire Door
8330	Overhead Door	670 series	Security Door
15400	Sunroc Corp.	SF – 3700	Wall Mounted Drinking Fountain
15800	Bell & Gossett	Series 1531	Close Coupled Centrifugal Pumps

Recommendation:

None

ACCOUNTING

As part of our work, KPMG reviewed the Foundation's cost accounting reporting system and invoice processing practices. They provided their General Ledger List for three fiscal years that tracked all construction costs for this project. Additionally, the Foundation furnished a spreadsheet that categorized costs into various budget line items.

We specifically requested detail for payments to CSUSB for project management services. For the \$60,000 transfer to the University's CPDC department, there was no back-up or fee percentage basis for the amount.

Recommendation:

11. CPDC (CSUSB) should provide the Foundation with documentation of the basis for determining the fee for the \$60,000 transferred to cover expenses in carrying out project management services. This document should be made part of the Foundation's accounting files and part of the CPDC project file.

Campus Response:

11. CSU construction management practices typically allow up to 7% of the total construction costs for project management expenses. CPDC (CSUSB) was able to complete the CVC Phase I project with total charges amounting to 1.74% of the total construction costs. This is substantially below the CSU or industry standards. A breakdown of expenditures for which the \$60,000 was allocated is attached for reference. This documentation will be placed in the project file and with the invoice used for billing and payment authorization.

State of California

California State University, San Bernardino
5500 University Parkway
San Bernardino, California 92407-2397

MEMORANDUM

DATE : December 16, 2002
TO Larry Mandel
University Auditor
The California State University



FROM : David DeMauro, Vice President
for Administration and Finance

SUBJECT: **Campus Response to Recommendations:
KPMG Audit Report on Construction
Project Number 150002-258602
CSUSB Coachella Valley Center – Phase I**

In response to your correspondence dated October 16, 2002, enclosed is the campus response to the KPMG Audit Report on Construction Project Number 150002-258602, CSUSB Coachella Valley Center Phase I. Also enclosed is the required diskette containing the campus response.

xc: President Karnig
David Jones
William Shum
Beverly Smith

Enclosures

DESIGN COSTS

Recommendation:

The Foundation should document the process for Architect/Engineer selection and that information should be made part of the project files.

Campus Response:

The architect selection processes for this project were thoroughly documented and made part of the project file. The project file contains a copy of the Request for Qualification that was sent to thirteen (13) pre-qualified architectural firms, invitation letters that were sent to five firms that were selected to be interviewed, and letters sent to the five finalists documenting the decision by the Selection Committee. During the final discussions on the architect selection, representatives from the City requested that “a show of hands,” in lieu of the scoring card, be used for the final decision. The Foundation deemed the request to be reasonable and as effective as the grade point scoring method. The decisions by the Selection Committee members were unanimous.

It is unusual that members of a selection committee would include other than State or Foundation employees. Yet, the unique nature of this project in which the vast majority of funding had been provided by donors, warranted the exceptional approach.

By the end of January 2003, the Foundation will document, in a memo to the project file, the “show of hands” approach and unanimous vote outcome. Particular attention shall be made in future projects to follow the selection process indicated in the Request for Proposal.

Recommendation:

2. The Foundation should prepare an amendment letter referencing the contract agreement that describes the A/E responsibilities and scope of services and that document should be made part of the permanent project file.

Campus Response:

The campus will prepare an amendment letter referencing contract agreement listing A/E responsibilities and scope of services. Documentation will be part of the permanent project file.

Projected completion date: March 31, 2003

**KPMG Construction Cost Review
CSU – San Bernardino Coachella Valley Center - Phase I
Foundation Project #150002-258602**

Recommendation:

3. The University should utilize standard formats to recommend that the Foundation authorize A/E Additional Services.

Campus Response:

The Foundation will use standard formats authorizing future A/E additional services.

Projected completion date: March 31, 2003

Recommendation:

4. The University should obtain Foundation management approvals for all A/E contractual amendments in order to clearly delineate between campus projects and auxiliary projects.

Campus Response:

The Foundation will approve all A/E contractual amendments to clearly delineate between campus projects and auxiliary projects.

Projected completion date: December 2002

Recommendation:

5. The Foundation should consider implementing a practice of hiring geotechnical firms independently of the A/E of Record.

Campus Response:

The Foundation will implement a practice of hiring geotechnical firms independently of the A/E of Record.

Projected completion date: December 2002

REQUEST FOR CM QUALIFICATIONS

Recommendation:

6. The University should advertise for auxiliary projects so not to infer that auxiliary projects are campus projects.

Campus Response:

The Foundation will advertise Foundation projects in the name of the Foundation for CSUSB.

Projected completion date: December 2002

Recommendation:

8. The Foundation should attempt to locate all responses and evaluations and include them as part of the permanent project files.

Campus Response:

A reasonable effort has been made to locate the documents with no success. The Foundation will ensure in future endeavors that records such as this are retained in the file.

In response to the public advertisements on major newspapers within the San Bernardino and Riverside counties, five (5) general contractors responded with their qualification statements submitted. Three firms were determined to meet the minimum qualifications and were invited by the Foundation to be interviewed. An Interview Committee was formed consisting of representatives of the Foundation, Chancellor's Office, CPDC, and the University.

During the interview, each firm was evaluated according to the criteria established in the RFQ and the scores were registered by each of the Interview Committee. Final scores of the three firms were tabulated by the summation of scores given by each of the members. As a result of this final score, Swinerton Builders was selected as the CM at Risk for the Coachella Valley Phase I project. The score cards were collected and forwarded to the Foundation Office. The score cards are now missing. Foundation staff will ensure in future endeavors that records such as this are retained in the files.

The Foundation has now contracted with the University Procurement Office for assistance with the Palm Desert Campus Phase II project to ensure that all documents are properly executed and maintained.

PROJECT MANAGEMENT/INSPECTION SERVICES

Recommendation:

9. The Foundation should insure that daily reports are maintained on behalf of the Foundation.

Campus Response:

The CVC Phase I project was the first project within the system ever employed by the CM at Risk delivery and there were no written guidelines established by the Chancellor's Office at the time.

In future CM at Risk projects, the Foundation will employ an independent construction inspector and maintain independent inspection records that document the progress of work at the job site.

Recommendation:

10. Specific agreements between the auxiliary and state employees should be executed on a project-by-project basis – assuming that state employees are eligible to receive compensation from auxiliary enterprises to manage capital projects in accordance with CSU system-wide Human Resource policies. Similarly, agreements between auxiliaries and University offices should be executed on a project-by-project basis.

Campus Response:

The CSU Management Personnel Plan allows additional compensation to an employee who is performing job duties which are deemed to be extraordinary and beyond the scope of duties. The Director of Capital Planning, Design and Construction would normally supervise a project manager on a job of this size. In this instance, the Director not only continued to perform his routine duties, but also personally provided project management and inspection duties for this job, which was located 75 miles away from the main campus. The duties were extraordinary and required the Director to expend a considerable extra effort of time and expertise to perform this function, and the employee was therefore eligible for an intermittent salary adjustment for the period in which these duties were performed.

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CSU – San Bernardino Coachella Valley Center - Phase I
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ACCOUNTING

Recommendation:

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Campus Response:

CSU construction management practices typically allow up to 7% of the total construction costs for project management expenses. CPDC (CSUSB) was able to complete the CVC Phase I project with total charges amounting to 1.74% of the total construction costs. This is substantially below the CSU or industry standards. A breakdown of expenditures for which the \$60,000 was allocated is attached for reference. This documentation will be placed in the project file and with the invoice used for billing and payment authorization.

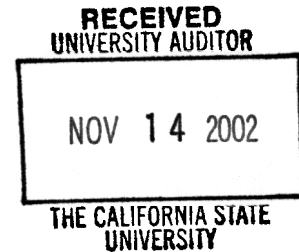
Memorandum

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

Date: November 11, 2002

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

Subject: **Audit Report**
Coachella Valley Center, Phase I
California State University, San Bernardino



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 are on the attached pages, and have been incorporated into the file on the diskette, also attached.

RPW:JRC:bn

Attachments

cc: Mr. J. Patrick Drohan
Mr. James R. Corsar
Mr. Thomas M. Kennedy
Ms. Elvyra F. San Juan

REQUEST FOR CM QUALIFICATIONS

Recommendation:

7. CPDC (Chancellor's Office) should establish guidelines for projects undertaken by auxiliary organizations to ensure industry standard practices are followed. These should include: a) delineation of which components of campus projects should be required and enforced; and b) articulation of the responsibilities of the University in administering auxiliary organization projects.

Management Response:

We agree. CPDC shall develop SUAM guidelines and contract documents for projects undertaken by auxiliary organizations. These new guidelines and documents shall be presented in our July 2003 training sessions.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

December 17, 2002

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: KPMG Draft Final Report on *Coachella Valley Center – Phase I*
(Project No. 150002-258602) at California State University,
San Bernardino

LONG BEACH

LOS ANGELES

In response to your memorandum of December 17, 2002, I accept the response as submitted with the draft final report on the *Coachella Valley Center – Phase I* project at California State University, San Bernardino.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

SACRAMENTO

cc: David DeMauro, Vice President, Administration and Finance
Albert K. Karnig, 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