

**CALIFORNIA STATE UNIVERSITY,  
SAN BERNARDINO**

**STUDENT HOUSING – PHASE I**

Final Report

April 19, 2002

**KPMG Construction Cost Review  
CSU – San Bernardino Student Housing - Phase I  
W007002**

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**PROJECT OVERVIEW**

KPMG was retained by the California State University’s (CSU) Office of the University Auditor to perform a review of CSU – San Bernardino’s (CSUSB or the University) Phase I -Student Housing Project. Phase I consists of two new two-story apartment-type housing units accommodating 312 beds. The project totals approximately 98,900 square feet and is constructed on a vacant 7-acre site south of the campus’ existing student housing. Primary building materials included wood frame construction, stucco exterior, and lightweight concrete roofing tile. The construction work also included landscaping, parking, and underground utilities, which were sized to accommodate a future Phase II project.

CSUSB’s Capital Planning, Design, and Construction (CPD&C) group provided “in-house” construction project management services. The University, in conjunction with the General Contractor, met an aggressive construction schedule and the project was successfully completed in 11 months. Students were able to occupy the building for the fall semester in September 2001.

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

|   |  |
|---|--|
| Contractor:                             | P. H. Hagopian Contractor, Inc.                                      |
| Architect/Engineer (A/E):               | Fisher Friedman Associates Architects                                |
| Project Management (PM):                | CSU - San Bernardino Capital Planning, Design & Construction (CPD&C) |
| Inspection – Inspector of Record (IOR): | United Inspection & Testing, Inc.                                    |
| Scheduling:                             | Consolidated Construction Management (CCM)                           |
| Cost Consulting:                        | Jacobus & Youang, Inc.   |

## **CONSTRUCTION BID PROCESS**

Prior to bid, three Addendums were issued. Addendum #1 provided updated drawings and additional specification sections. Addendum #2 changed the bid date and provided clarification of various drawings. Addendum #3 further clarified drawings and specifications.

Fisher Friedman estimated the project to cost \$10,500,000. The original Notice to Contractors indicated a bid date of September 6, 2000, which was revised to September 11 by Addendum #2. The Abstract of Bids listed three (3) responsive bidders and the low bidder was P. H. Hagopian Contractor, Inc with a base bid of \$11,369,000. The initial specifications listed five (5) deductive alternates. The alternates were as follows:

*Alternate 1:* Replace the water loop heat pump system with a split heat pump system.

*Alternate 2:* University to purchase all lighting fixtures. Contractor provides installation only.

*Alternate 3:* The University to purchase all plumbing fixtures. Contractor provides installation only.

*Alternate 4:* Delete telecommunications pathway system.

*Alternate 5:* Delete 4,115 square feet of 4" thick walkway and associated lighting.

None of the Alternates were accepted or incorporated into the original construction contract. P. H. Hagopian was awarded a construction contract in the amount of \$11,369,000 on September 15, 2000.

Additional findings include:

- The Abstract of Bids was appropriately completed and signed.
- P. H. Hagopian furnished an appropriate Payment and Performance Bond in the original contract amount as required.
- P. H. Hagopian is a California Corporation.
- The original construction period was to cover 300 calendar days.
- Liquidated damages were stated to be \$2,500 per day.
- Notice to Proceed was given on October 9, 2000, with a start date of October 16, 2000.
- Original completion was established as August 12, 2001.

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- Notice of Completion was recorded as October 22, 2001 (71 days after the original completion date).
- State Fire Marshal granted beneficial occupancy for staff and students on September 14, 2001.
- Occupancy occurred on September 16, 2001.
- An extension of 68 days was included in the final change order that extended the final completion date to October 19, 2001.

***Recommendation:***

None

## **CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES**

For this project, the "List of Proposed Subcontractors" (CM Form 701.04) identified 22 separate work divisions and subcontractors. The "Expanded List of Subcontractors" (CM Form 701.04 A), included 22 subcontractors although some substitutions were made. Our review disclosed the following:

- McKinney Wall Systems was listed as the Drywall subcontractor. The University appropriately approved the substitution of Sierra Lathing.
- Data Fire Protection was listed as the Fire Sprinkler subcontractor. The University appropriately approved the substitution of Daart Engineering.
- BEC was listed as the Electrical subcontractor. The University appropriately approved the substitution of McDaniel.
- Sheer Refrigeration was listed as the HVAC subcontractor. The University appropriately approved the substitution of Pro Mechanical.

As part of the bid process review, P.H. Hagopian provided a "Bid Run-Down" sheet and with supporting documentation. We reviewed the entire bid file and found that, in most cases, P. H. Hagopian 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. The following trade bids were examined in detail:

- **HVAC:** Two bids were received ranging from \$699,971 to \$792,000. The low bidder was substituted (as indicated above). A subcontract was issued in the amount of \$792,000.
- **Plumbing:** Three bids were received ranging from \$850,000 to \$1,042,050. Two of the bidders failed to include pricing for site plumbing from three specification sections. One of the bidders amended their bid to \$1,050,000 that did include site plumbing, as well as tub enclosures valued at approximately \$80,000. The \$1,042,050 bid did not include tub enclosures. Hagopian realized that the apparent low bid would exceed the \$1,050,000 price if revised for the enclosures and therefore chose the subcontractor's price whose bid was \$1,050,000 as the most responsive and the lowest.
- **Window Coverings:** Three bids were received ranging from \$46,400 to \$47,400. Diversified Window Coverings, Inc. was issued a subcontract in the amount of \$46,960.
- **Casework:** Five bids were received, ranging from \$252,800 to \$335,000. GreSean Industries, the low bidder, was issued a subcontract in the amount of \$252,800.
- **Glass & Glazing:** Four bids were received ranging from \$173,358 to \$415,800. Mitchell Glass, the low bidder, was issued a subcontract in the amount of \$173,358.

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- **Paint:** Three bids were received ranging from \$226,000 to \$408,778. The low bidder, Saunders & McMillin, was issued a subcontract in the amount of \$226,000.

***Recommendation:***

None

## **CONSTRUCTION CHANGE ORDERS**

Ten Change Orders, totaling \$362,978 and incorporating 40 Change Order Requests (COR), were approved on the project. The changes added 3.19% to the original contract amount of \$11,369,000, which is within industry norms for a project of this type. The majority of changes can be attributed to drawing clarifications that arose from plan reviews. The following approved Change Order Requests were in excess of \$20,000:

|         |   |           |
|---------|---|-----------|
| COR 33  | Per Bulletin No. 2 – Drawing clarifications/bldg code | \$21,157  |
| COR 19R | Mechanical Changes                                    | \$35,827  |
| COR 6R  | Bulletin No. 2 - Drawing clarifications               | \$153,429 |
| COR 4R4 | Framing, concrete and rebar changes                   | \$54,119  |
| COR 8R  | Water line changes                                    | \$30,470  |

### **Review of Contractor Documentation**

In our standard 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 100% of the total change orders, all subcontractor quotes and backup to change orders issued were traced and confirmed at the Contractor level.

### **Change Order Markup**

The General Conditions for this project allowed the following markup for overhead and profit as follows:

- 15% on the first \$50,000 of the General Contractor’s self performed work
- 10% on the General Contractor’s self performed work over \$50,000
- 10% on the first \$50,000 of direct costs for subcontracted work
- 7% on direct costs for subcontracted work in excess of \$50,000
- 6% credit fee on deductive changes

In a review of Contractor markup with respect to change orders, the markups were appropriately calculated and correctly paid with a few exceptions that we found to be immaterial.

However, the method for calculating the General Contractor’s mark-up included in the CSU General Conditions does not indicate whether or not the mark-up for each subcontractor should be calculated individually or calculated on the combined subcontractor quotes. We find that the Contractor’s mark-up are being applied both ways at various campuses. This is particularly important when the subcontractor portion of changes include adds and deducts. The table below illustrates the results of General Contractor mark-ups when applied to each subcontractor quote versus to the net of the sub quotes:

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| Cumulative Add       |          |                                     |  |
|----------------------|----------|-------------------------------------|--|
| Subcontractor Quotes | Amount   | General Contractor Mark-up for Each | General Contractor Mark-up on Subtotal |
| Subcontractor 1      | (40,000) | (2,400)                             |  |
| Subcontractor 2      | 50,000   | 5,000                               |  |
| Subcontractor 3      | (5,000)  | (300)                               |  |
| Subtotal             | 5,000    |                                     | 5,000                                  |
| Total GC Mark-up     |          | 2,300                               | 500                                    |
| Cumulative Deduct    |          |                                     |  |
| Subcontractor 1      | 40,000   | 4,000                               |  |
| Subcontractor 2      | (50,000) | (3,000)                             |  |
| Subcontractor 3      | (5,000)  | (300)                               |  |
| Subtotal             | (15,000) |                                     | (15,000)                               |
| Total GC Mark-up     |          | 700                                 | (900)                                  |

As shown above, in each case CSU would pay more when the General Contractor’s fee is based on individual subcontractor pricing versus applying the mark-up to the net of subcontractor quotes.

The CSU General Conditions Article 6.01.c (7) state “for proposed change orders that involve both added and omitted work, the Contractor shall separately estimate the cost of the added work before mark-ups, and separately estimate the value of the omitted work before allowance of a credit. If the difference between the two figures results in an increase to the contract price, the mark-ups for added work shall be applied to the difference, and if the difference in the figures results in a decrease, then the mark-ups for deleted work shall be applied to the difference.” This indicates that all subcontractor costs should be netted prior to calculating Contractor mark-up which is consistent with the recent form (703.34) published by CPDC (Chancellor’s Office).

***Recommendation:***

1. CPDC (Chancellor’s Office) should clarify the CSU General Conditions to more accurately reflect the intention of how the General Contractor mark-up should be applied to subcontractor costs.

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***Management Response:***

1. We agree. We recently created and posted on the CPDC web site a Supplementary General Conditions for the Contract General Conditions for Major Capital Outlay Projects that requires contractors to net subcontractor costs prior to applying mark-up. We consider this item closed.

Note that Supplementary General Conditions supersede the Contract General Conditions. We have advised campus staff to check the web site for the most current version to include in each project's contract documents. We incorporate the requirements in the Supplementary General Conditions into the annual update of the Contract General Conditions.

**Labor Burden & Fringe**

P. H. Hagopian did not self-perform work on this project and therefore carried no labor burden or fringe on change orders. Labor burden charged on management and supervisory costs against the base lump sum contract is undisclosed by the Contractor and not subject to review. For this particular project, labor burden and fringe cost reviews were not performed.

**Change Order Report Analysis**

The University provided a change order log that accurately reflected the source of each of the ten (10) changes. The following is the result of that report:

| Type of Change                                    | C.O. Totals | % of CO | % of Contract |
|---|-------------|---------|---------------|
| 4.1 Errors/Omissions from the Contract Documents  | -           | 0.00%   | 0.00%         |
| 4.2 Unforeseeable job site conditions             | 38,982      | 10.74%  | 0.34%         |
| 4.3 Regulatory agency, bldg. Code, safety, health | 285,720     | 78.72%  | 2.51%         |
| 4.4 Originated by the University                  | 7,449       | 2.05%   | 0.07%         |
| 4.5 Unavailability of specified materials         | 30,827      | 8.49%   | 0.27%         |
| 4.6 Other   |             | 0.00%   | 0.00%         |
| Total Change Orders                               | 362,978     | 100.00% | 3.19%         |
| Original Contract Amount                          | 11,369,000  |         |               |
| Total   | 11,731,978  |         |               |

We found that the change order log was accurately prepared and properly presented.

***Recommendation:***

None

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**DESIGN COSTS**

Fisher Friedman Associates of San Francisco designed the CSUSB Student Housing – Phase I. Their contract dated May 20, 2000, in the amount of \$642,193 was altered by the inclusion of three (3) additional services totaling \$671,259. The following amendments were issued against the contract:

| <b>Date</b>       | <b>Additional Service</b>       | <b>Amount</b>  |
|-------------------|---------------------------------|----------------|
| September 7, 2000 | Studio Units                    | NTE \$9,800    |
| May 2, 2001       | Schematic Design for Phase II   | Est. \$100,000 |
| August 7, 2001    | Full Service Agreement Phase II | \$561,459      |

Although Phase II was funded with non-state funds and the Office of the General Counsel (OGC) reviewed the contracting method for the Phase II work, it is not common accounting practice to issue additional service amendments for projects being constructed separately under separate budgets. A new contract for the Phase II work or the inclusion of the Phase II work in the original contract would have been a more preferable method for contracting the second phase of the project.

***Recommendation:***

2. CPDC (Chancellor’s Office) should provide design guidelines for contracting for separate phases of design costs when A/E firms are selected to perform multiple phases of projects.

***Management Response:***

2. We agree. My staff issued a memo on May 13, 2002, to all campus Vice Presidents for Administration on the subject “CSU Approved Procedures for Administration of Professional Agreements.” Included in this memo were proposed revisions to SUAM, and staff in CPDC’s A&E unit is currently working towards implementing these guidelines. We expect to post the revised SUAM on CPDC’s web site by August 1, 2002.

We performed a detailed 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 the final 5% (or \$7,371) for Construction Administration.

The A/E Certificate of Insurance for professional liability coverage, also known as Errors and Omissions Coverage, was unavailable for review during the campus visit. A copy of the Certificate was made available via facsimile from the A/E on November 9, 2001, but neither CSUSB Procurement nor CPD&C had a copy of the certificate in their project files.

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***Recommendation:***

3. The University should establish a procedure that prevents payments to consultants prior to receiving proof of insurance coverage as required by the consulting agreements.

***Campus Response:***

3. The University concurs with the recommendation. The campus has established a procedure to prevent payments to the consultants prior to receiving proof of insurance as required by the consulting agreements.

## **PROJECT MANAGEMENT/INSPECTION SERVICES**

The University provided in-house project management services for the project supplemented by several outside firms that provided construction consulting and review services. United Inspection & Testing, Inc. provided Inspector of Record (IOR) services; Consolidated CM provided project scheduling review services; and Jacobus & Yuang, Inc. provided construction cost consulting services. Although CSUSB issued numerous Requests for Qualifications to retain these firms, they did not issue specific Requests for Proposals (RFP). The RFP process provides a means of comparing the consultant's proposed scope of services and allows a comparison across firms of both unit costs and the firm's proposed project costs.

### ***Recommendation:***

4. CSUSB should issue Requests for Proposals (RFP) for consulting services on major capital outlay projects in accordance with the State University Administration Manual (SUAM) Section 9700.

### ***Campus Response:***

4. Campus staff were under the impression that a consultant who was on the Chancellor's Office list of approved consultants could be hired by the campus without a selection process. The campus now understands that an RFP selection process among approved consultants must be conducted to meet SUAM requirements and will do so.

### **Inspection Services:**

The original inspection agreement with United Inspection & Testing was executed in the amount of \$73,170. The original agreement included a proposed payment schedule that included 1,376 hours at \$40 per hour (or \$55,040) for IOR services and \$18,130 for testing.

Two contract amendments in the amount of \$17,000 and \$10,000 were issued on June 26, 2001, and September 10, 2001. This revised the total contract amount for IOR and testing services to \$100,170. The following table summarizes contract amounts and payments for IOR and testing services:

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| <b>United Inspection &amp; Testing, Inc.</b>         | <b>Amount</b>    |
|--|------------------|
| Original Agreement (IOR and Testing)                 | \$73,170         |
| Amend. 1 – Additional services through Sep 2001      | 17,000           |
| Amend 2 – Additional services                        | 10,000           |
| <b>Revised Agreement</b>                             | <b>\$100,170</b> |
| <b>Inspector of Record and Testing Services Paid</b> | <b>\$95,059</b>  |

Although the appropriate service agreement form (CRL048) was utilized. Rider B to the agreement, updated four months prior to the agreement date, was not utilized. The most significant difference in the two documents is that the revised Rider B requires liability insurance. KPMG was informed that although the revised Rider B was dated September 2000, the form was not posted on the CSU website until March 2001, after the contract had been executed.

***Recommendation:***

- CPDC should establish a process for notifying campuses of revisions to forms and agreements that are utilized in CSU procurement practices.

***Management Response:***

- We agree. We currently review all changes with Executive Deans prior to change, and notify campuses through the Business and Finance newsletter, published every two months by the Chancellor’s Office. In training sessions for Construction Management procedures, CPDC staff emphasize that campuses should frequently check the CPDC web site for most current versions of Contract Documents and SUAM.

**Scheduling Services:**

The original agreement with Consolidated CM was executed on November 9, 2000, in the amount of \$7,160 and included \$1,200 to cover expenses. A contract amendment was issued in the amount of \$3,000 on July 31, 2001. The following table provides a final cost summary for Consolidated CM’s services:

| <b>Consolidated CM</b>                           | <b>Fee Amount</b> | <b>Expenses</b> | <b>Total</b>  |
|--|-------------------|-----------------|---------------|
| Original Agreement                               | \$7,160           | \$1,200         | \$8,360       |
| Amend. 1 – Additional services through July 2001 | 3,000             | 0               | 3,000         |
| <b>Revised Agreement</b>                         | <b>10,160</b>     | <b>1,200</b>    | <b>11,360</b> |
| <b>CCM Invoices Paid</b>                         | <b>8,930</b>      | <b>324</b>      | <b>9,254</b>  |

Although the appropriate service agreement form (CRL048) was utilized, again, Rider B was not utilized.

**Cost Consulting:**

Jacobus & Yuang's agreement, executed on August 1, 2000, provided professional services for the review of construction documents and disputed change order proposals submitted by the Contractor. The hourly billing rate was \$85. This review evaluated paid invoices totaling \$31,981 for this project. Invoices for another concurrent construction project were also reviewed. Although Jacobus & Yuang itemized their hours and provided descriptions of services, they did not include time sheets. In three instances, over an eight-month period, an employee charged the University 13 hours, 14 hours, and 16 hours on three given days. Although extenuating circumstances could have been the source of these charges, time sheets would have confirmed if these charges stemmed from duplicate billings or actual hours worked.

**Recommendation:**

6. On future capital outlay projects, the University should require that hourly consultants submit time sheets along with their invoices.

**Campus Response:**

6. The University does not concur with this finding nor the recommendation. The finding that the consultant did not submit a timesheet indicating the specific hours in which he worked is immaterial. The date submitted was sufficient for the project manager to make a reasonable judgment as to whether or not the billing was justifiable to approve the payment. The statement received from Jacobus & Yuang, Inc. was a combination of timesheets and invoices. In addition to all information needed for the invoices, they also included such information as:

- Individuals who worked on the particular items
- Number of hours worked on a particular item
- Hourly rates
- Total dollar amount (charges) for that item
- Activity description for each item

To meet critical deadlines, there have been several occasions that the consultants exceeded eight hours in a 24-hour period without charging the University for the overtime premium. It is the position of the University that the number of hours submitted by the consultant on the related activity item is justifiable and reasonable based upon the demand of the university project manager for the consultant to respond with an analysis of a large volume of information in a very short period of time. In short, it would not have mattered what specific hours the consultant may have indicated that he worked. Whether the hours were 6 am to 6 pm or 8 am to 8 pm, the specific hours are immaterial in evaluating the justification for payment. The

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**CSU – San Bernardino Student Housing - Phase I**  
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judgment was based upon whether or not the total number of hours claimed to have been worked in a single day were reasonable --- and they were, based upon the short response time demanded.

Total fees paid for inspection, scheduling and cost consulting services totaled \$127,261, representing 1.08% of total construction costs. Since the campus provided project management and related support services that were not capitalized with the construction costs, the project management total is noticeably below industry standards of 2.5% to 3.5%.

## **ACCOUNTING**

As part of our work, KPMG reviewed CSUSB's cost accounting reporting system and invoice processing practices. The University has recently converted the general accounting system to Peoplesoft, which does not support specialized construction cost reporting. CPD&C did, however, provide internal reports that tracked the project budget, actual expenditures, and contingency. This report was updated regularly and sent to the Vice President for Administration and Finance.

The reporting system is maintained independently of the accounting and procurement departments, requiring CSUSB's CPD&C to enter all invoice information in spreadsheets - even though the University accounting department also enters all invoices in an accounting system. Given the size of the capital outlay program, and the hours spent in redundant effort under the current practice, CSU may consider a system-wide project cost reporting system.

KPMG pursued discussions relating to a system-wide policy that provides for capitalizing facility management support staff to construction projects. It appears that this is not a current practice. This is traditionally done within the construction industry and would more accurately reflect the true costs of project management, especially when the campus manages the project rather than hiring outside firms that are included in project budgets and are capitalized with other construction costs.

### ***Recommendation:***

7. CPDC (Chancellor's Office), in conjunction with representatives of various campuses, should investigate whether standardized construction cost reporting software that interfaces with University's financial software is practical and in the best interest of CSU.

### ***Management Responses:***

7. We agree. However, at this time it is not practical to provide such a universal cost reporting system. Nevertheless, we will continue to investigate the possibilities, including use of the Common Management System (CMS). Given the CMS implementation schedule, however, we are unable to provide an estimated timeline for resolution.

## **LIQUIDATED DAMAGES**

During our interviews, campus personnel emphasized that the project timeline had been critical. Because of the fast-track approach and the criticality of moving students into the project prior to the start of the fall semester, the University disallowed any interim time extensions. The University did, however, acknowledge that the Contractor was entitled to extensions due to delays in the sewer and water realignment approval process, weather delays, and changes in construction (related to Cost Request Bulletins #1 and #2). P. H. Hagopian confirmed that the University promised to grant additional time if they could not make up time in order to meet the original completion date.

The Contractor requested that the delays be addressed at the end of July 2001. A thirty-five day time extension was granted, since students would inhabit the project on September 16, 2001 (35 days after the original completion date of August 12, 2001). The University also granted a thirty-three day extension for P. H. Hagopian to complete punch list items and submit project close-out documents. Change Order 10A extended the completion date 68 days and indicated a revised date of October 19, 2001, which was three days earlier than the date of the Notice of Completion.

Close-out documents were completed by October 22, 2001. The Project Close-out Checklist was complete and appropriately signed.

### ***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 November 5, 2001. The Contractor furnished CSUSB with a Submittal Log, from which a sample was selected. Submittal records were provided and reviewed at the campus.

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 in order to verify that specified and approved equipment had been provided and installed by the Contractor.

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

| Div. # | Brand                | Model #            | Description                      |
|--------|----------------------|--------------------|----------------------------------|
| 15440  | Bell & Gossett       | 3E10.250 BF        | Centrifugal Pump                 |
| 15480  | Lochinvar            | 495-2065           | Gas Boiler                       |
| 15660  | BAC Baltimore        | Series V - F1733-K | Air Coil                         |
| 15740  | Based on performance | GRH 006            | Heat Pumps (1st fl. Common area) |
| 15740  | Based on performance | GRH 019            | Heat Pumps (2nd fl. Common area) |

***Recommendation:***

None

# Memorandum

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

**Date:** May 29, 2002



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

**Subject:** **Audit Report**  
Student Housing, 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 follow.

### Change Orders

#### *Response to Item No. 1:*

We agree. We recently created and posted on the CPDC web site a Supplementary General Conditions for the Contract General Conditions for Major Capital Outlay Projects that requires contractors to net subcontractor costs prior to applying mark-up. We consider this item closed.

Note that Supplementary General Conditions supersede the Contract General Conditions. We have advised campus staff to check the web site for the most current version to include in each project's contract documents. We incorporate the requirements in the Supplementary General Conditions into the annual update of the Contract General Conditions.

### Design Costs

#### *Response to Item No. 2:*

We agree. My staff issued the attached memo on May 13, 2002 to all campus Vice Presidents for Administration on the subject "CSU Approved Procedures for Administration of Professional Agreements." Included in this memo were proposed revisions to SUAM, and staff in CPDC's A&E unit is currently working towards implementing these guidelines. We expect to post the revised SUAM on CPDC's web site by August 1, 2002.

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Audit: Student Housing, Phase I (San Bernardino)  
May 29, 2002  
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*Project Management/Inspection Services*

*Response to Item No. 5:*

We agree. We currently review all changes with Executive Deans prior to change, and notify campuses through the Business and Finance newsletter, published every two months by the Chancellor's Office. In training sessions for Construction Management procedures, CPDC staff emphasize that campuses should frequently check the CPDC web site for most current versions of Contract Documents and SUAM.

*Accounting*

*Response to Item No. 7:*

We agree. However, at this time it is not practical to provide such a universal cost reporting system. Nevertheless, we will continue to investigate the possibilities, including use of the Common Management System (CMS). Given the CMS implementation schedule, however, we are unable to provide an estimated timeline for resolution.

RPW:JRC:bn

Attachment

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

State of California

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

**MEMORANDUM**

DATE July 15, 2002  
TO Larry Mandel  
University Auditor  
The California State University

FROM : David DeMauro, Vice President  
for Administration and Finance

SUBJECT: **Campus Responses to Audit Report**  
**CONSTRUCTION PROJECT NUMBER W007002**  
***Student Housing – Phase I***  
**California State University, San Bernardino**

RECEIVED  
UNIVERSITY AUDITOR

JUL 15 2002

THE CALIFORNIA STATE  
UNIVERSITY

Attached for your consideration are campus responses to KPMG Audit Report on Construction Project Number W007002 – Student Housing, Phase I.

Support documentation will be submitted separately for the items which the campus considers to be closed.

xc: Hamid Azhand  
Patrick Drohan  
Kathy Hansen  
William Shum

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

**KPMG AUDIT REPORT ON  
CONSTRUCTION PROJECT NUMBER W007002  
STUDENT HOUSING – PHASE I**

**CAMPUS RESPONSE  
7-15-02**

**RECOMMENDATION 1**

CPDC (Chancellor's Office) should clarify the CSU General Conditions to more accurately reflect the intention of how the General Contractor mark-up should be applied to subcontractor costs.

**CHANCELLOR'S OFFICE RESPONSE**

[To be provided by CSU Office of Capital Planning, Design and Construction]

**RECOMMENDATION 2**

CPDC (Chancellor's Office) should provide design guidelines for contracting for separate phases of design costs when A/E firms are selected to perform multiple phases of projects.

**CHANCELLOR'S OFFICE RESPONSE**

[To be provided by CSU Office of Capital Planning, Design and Construction]

**RECOMMENDATION 3**

The University should establish a procedure that prevents payments to consultants prior to receiving proof of insurance coverage as required by the consulting agreements.

**CAMPUS RESPONSE**

The University concurs with the recommendation. The campus has established a procedure to prevent payments to the consultants prior to receiving proof of insurance as required by the consulting agreements.

#### **RECOMMENDATION 4**

CSUSB should issue Requests for Proposals (RFP) for consulting services on major capital outlay projects in accordance with the State University Administrative Manual (SUAM) Section 9700.

#### **CAMPUS RESPONSE**

Campus staff were under the impression that a consultant who was on the Chancellor's Office list of approved consultants could be hired by the campus without a selection process. The campus now understands that an RFP selection process among approved consultants must be conducted to meet SUAM requirements and will do so.

#### **RECOMMENDATION 5**

CPDC should establish a process for notifying campuses of revisions to forms and agreements that are utilized in CSU procurement practices.

#### **CHANCELLOR'S OFFICE RESPONSE**

[To be provided by CSU Office of Capital Planning, Design and Construction]

#### **RECOMMENDATION 6**

On future capital outlay projects, the University should require that hourly consultants submit time sheets along with their invoices.

#### **CAMPUS RESPONSE**

The University does not concur with this finding nor the recommendation. The finding that the consultant did not submit a timesheet indicating the specific hours in which he worked is immaterial. The date submitted was sufficient for the project manager to make a reasonable judgment as to whether or not the billing was justifiable to approve the payment. The statement received from Jacobus & Yuang, Inc. was a combination of timesheets and invoices. In addition to all information needed for the invoices, they also included such information as:

- Individuals who worked on the particular items
- Number of hours worked on a particular item
- Hourly rates
- Total dollar amount (charges) for that item
- Activity description for each item

To meet critical deadlines, there have been several occasions that the consultants exceeded eight hours in a 24-hour period without charging the University for the overtime premium. It is the position of the University that the number of hours submitted by the consultant on the related activity item is justifiable and reasonable based upon the demand of the university project manager for the consultant to respond with an analysis of a large volume of information in a very short period of time. In short, it would not have mattered what specific hours the consultant may have indicated that he worked. Whether the hours were 6 am to 6 pm or 8 am to 8 pm, the specific hours are immaterial in evaluating the justification for payment. The judgment was based upon whether or not the total number of hours claimed to have been worked in a single day were reasonable --- and they were, based upon the short response time demanded.

#### **RECOMMENDATION 7**

CPDC (Chancellor's Office), in conjunction with representatives of various campuses, should investigate whether standardized construction cost reporting software that interfaces with University's financial software is practical and in the best interest of CSU.

#### **CHANCELLOR'S OFFICE RESPONSE**

[To be provided by CSU Office of Capital Planning, Design and Construction]

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 6, 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 *Student Housing - Phase I*  
(Project No. W007002) at California State University,  
San Bernardino

LONG BEACH

LOS ANGELES

In response to your memorandum of August 6, 2002, I accept the response as submitted with the draft final report on the *Student Housing - 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