

SAN FRANCISCO STATE UNIVERSITY

CESAR CHAVEZ STUDENT CENTER

Final Report

April 19, 2002

PROJECT OVERVIEW

KPMG was retained by the California State University's (CSU) Office of the University Auditor to perform a review of the San Francisco State University (SFSU or the University) renovation and expansion of the Cesar Chavez Student Center (the project). The project totaled 115,014 square feet of renovation and 25,300 square feet of new construction, including:

- Life Safety and Americans with Disabilities Act (ADA) compliance upgrades
- The addition of a new terrace floor, a 500-seat auditorium, new offices, an art gallery, and meeting rooms.
- Miscellaneous scope items including:
 - Asbestos and lead-based paint abatement in renovated areas.
 - Various electrical, mechanical, and plumbing modifications.
 - Exterior site work including new courtyards, hardscaping, irrigation, lighting, and landscaping.

The project required special phasing/sequencing and site access requirements in order to remain in operation during construction. SFSU's Capital Planning, Design & Construction (CPD&C) provided "in-house" construction management services.

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

Contractor:	S. J. Amoroso Construction Co., Inc.
Architect/Engineer (A/E):	Kaplan/McLaughlin/Diaz Architects (KMD)
Inspection – Inspector of Record (IOR)/Project Manager (PM):	Van Pelt Construction Services (VPCS)

CONSTRUCTION BID PROCESS

Initial project estimates, provided by the A/E, totaled \$8,300,000. The original Notice to Contractors indicated a bid date of August 6, 1998, and was revised to August 18 by Addendum #1.

Prior to bid, five Addendums were issued as follows:

- Addendum #1:* Issued July 29, 1998 - Bid date was changed from August 6, 1998 to August 18, 1998.
- Addendum #2:* Issued August 1, 1998 - Clarified drawing notes and edited some specification sections.
- Addendum #3:* Issued August 3, 1998 - Addressed bidding questions, modified architectural drawings, and added an additional specification section.
- Addendum #4:* Issued August 11, 1998 - Addressed bidding questions, modified drawings, and edited specification sections.
- Addendum #5:* Issued August 12, 1998 - Modified specification section 08710.

One allowance was included in the specifications in the amount of \$150,000 to cover the costs of special testing inspection and abatement.

The initial specifications listed three (3) additive alternates as follows:

- Alternate 1:* Add plaza lobby finishes (tile, floor base and paint).
- Alternate 2:* Add stainless steel handrails at the two main stairs.
- Alternate 3:* Phasing and sequence – Conference level bookstore renovation cannot begin until terrace level art gallery, tech. services, and offices are occupied.

There were four responsive bidders listed on the Abstract of Bids, with Transworld Construction the apparent low bidder at \$8,400,000. Transworld formally withdrew its bid in a certified letter dated August 18, 1998, claiming a mistake in the bid amount of more than \$2,500,000. A letter from SFSU approving the withdrawal was not found in the project files.

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S. J. Amoroso Construction (Amoroso) was the second lowest bidder and was awarded a construction contract in the amount of \$10,335,000 on November 12, 1998. None of the Alternates were accepted or incorporated into the original construction contract.

Recommendation:

1. The University should provide formal, written authorization for contractor bid withdrawal requests. The authorization should be kept as part of the permanent project records.

Campus Response:

1. We concur. The University is providing formal, written authorization for contractor bid withdrawal requests. A project award checklist was also developed to ensure that written authorization of bid withdrawal is issued prior to contract award. The authorization will be kept as part of the permanent project records.

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed.
- S. J. Amoroso Construction Co. furnished an appropriate Payment and Performance Bond in the original contract amount as required.
- S. J. Amoroso Construction Co., Inc. is a California Corporation.
- The original construction period was to cover 540 calendar days.
- Liquidated damages were stated to be \$2,000 per day.
- Notice to Proceed was issued on December 22, 1998, with a start date of December 23, 1998.
- Original completion was established as June 15, 2000.
- Notice of Completion was recorded as September 20, 2000 (97 days after the original completion date).
- No time extensions were granted in change orders to extend the final completion date.

CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

The "List of Proposed Subcontractors" (CM Form 701.04) identified 18 separate work divisions and subcontractors. The "Expanded List of Subcontractors" (CM Form 701.04 A), included the same 18 subcontractors. Our review disclosed the following:

- Tony Lo Plumbing was listed as the Plumbing subcontractor, but due to their inability to obtain bonding, the University appropriately approved the substitution of Egan Plumbing as the Plumbing subcontractor.
- Mori Hatsushi & Associates, originally listed as the Landscaping subcontractor, refused to execute a contract with S. J. Amoroso Construction. The University appropriately notified Hatsushi that if they did not respond within five days, as required, Egli Landscaping would be considered an approved substitute. A copy of the final approval for the substitution of Egli as the Landscaping subcontractor was not available in SFSU's project files.

Recommendation:

2. The University should establish a policy to ensure that appropriate subcontractor substitution documentation is maintained in the project files.

Campus Response:

2. We concur. The University has amended its Project Administration Reference Manual by adding specific language regarding subcontractor substitution documentation. Also, the issue of subcontractor status report and substitution is being periodically addressed in the weekly construction meetings as a discussion item.

Amoroso Construction failed to list six subcontractors with subcontract amounts in excess of ½ of 1% as required by Public Code. S. J. Amoroso's Controller explained that the trade work of these six subcontractors was originally included in other subcontractors' bids that had been appropriately listed. As a result, the originally listed subcontractors did not desire to perform the work nor could they meet the project specification requirements. As a result, other subcontractor pricing was solicited and separate subcontracts issued.

The failure to list six subcontractors, or request approval for substitutions, is questionable and raises suspicion that Amoroso may have engaged in additional negotiations to eliminate work from the original bids in order to obtain better pricing from other subcontractors. Regardless, S. J. Amoroso appears to have violated Public Code substitution requirements by failing to obtain the University's approval for the substitution of work. The six subcontracts that were not listed are as follows:

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Allied Heating – Flashing/Sheet Metal	\$210,000
Architectural Door – Doors and Frames	53,245
Brady Company – Cementitious Fireproofing	96,825
Brand Scaffold - Scaffolding	51,804
Meddco – Stainless Steel/Glass Rail	72,521
Tri-State Skylights – Skylights	<u>82,200</u>
Total	\$566,595

As part of the bid process review, Amoroso provided copies of the original bid files. In most cases, and with all major trade work, the Contractor obtained multiple bids. We found that some bids were adjusted to either add or delete work not in the original bids. This practice appears to be questionable. The following trade bids were examined in detail:

- **Structural and Misc. Steel:** Two bids were received in the amounts of \$906,3000 and \$1,060,000. A contract was issued to the low bidder, Roscoe Steel in the amount of \$906,300.
- **HVAC:** Three bids were received ranging from \$725,000 to \$890,000. After sheet metal costs were deducted from the low bid, a contract was issued in the amount of \$625,000 to Bay City Mechanical.
- **Glass and Glazing:** Two bids were received in the amounts of \$246,752 and \$264,530. The low bidder also provided optional pricing for alternative products. A contract was issued to the low bidder, Architectural Glass and Aluminum.
- **Drywall:** Only one bid was received, however \$170,000 was deducted from the price before issuing a contract to North Bay Drywall & Plastering in the final amount of \$1,230,000. It appears that this may have been for fireproofing and scaffolding. These trades are included in the subcontractors that were not listed.

Recommendation:

3. The University should determine if the lack of substitution approvals compromised public bidding practices and whether or not Amoroso should be assessed penalties.

Campus Response:

3. We concur. The University agrees that Amoroso appears to have violated Section 4106 PCC. The University contacted each of the four listed subcontractors (Roscoe Steel, Bay City Mechanical, Architectural Glass and Aluminum, and North Bay Drywall) and was informed that the scope reductions and subcontractor substitutions were consensual. The scope reductions were generally of the portions of the listed (first-tier) subcontractors' scope, which were planned to be subcontracted to second-tier subcontractors.

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Furthermore, it appears that Amoroso did not benefit from these scope adjustments and subcontracts. For example, the total value of the HVAC subcontract of Bay City Mechanical and Allied Heating increased from \$725,000 to \$835,000. Therefore, it is the opinion of the University that the public interest was not compromised and that no penalties should be assessed.

CONSTRUCTION CHANGE ORDERS

The University explained in their Post Project Performance Review that the project was plagued with delays and cost overruns. Contributing to these difficulties was poor “as-built” documentation of changes since the building was constructed. These unforeseen conditions impacted the quality of the project’s drawings, resulting in a high percentage (6%) of Error and Omission changes.

Recommendation:

4. The University should conduct additional investigation (outside of the current scope of this report) to determine whether the lack of existing building documentation relieves the A/E of responsibility for the additional change order costs due to Errors and Omissions.

Campus Response:

4. We concur. The University has reviewed the project records and determined that there were inaccurate record drawings of the original building as well as subsequent improvements, and inaccurate inventory of asbestos-containing building materials. The resulting additional work required was not part of the initial construction contract. The A/E should be relieved from additional change order costs.

Sixteen Change Orders, totaling \$2,588,113 and incorporating 539 Change Proposals (CP), were approved on the project. The changes added 25% to the total contract amount, which was substantially higher than project contingency budgets. The majority of changes were attributable to unforeseen conditions and asbestos abatement. The project included an allowance of \$150,000 to cover the cost of special testing, inspection, and asbestos abatement.

As part of our review process, we sampled change orders and traced subcontractor estimates to the actual subcontractor change orders. The Contractor furnished all subcontract files. KPMG reviewed approximately 156 of the total change proposals containing more than 180 separate subcontractor change orders. We were able to trace all significant subcontractor quotes/backup on change orders issued to the applicable subcontracts. S. J. Amoroso Construction’s records were in excellent order.

In several instances, we found that S. J. Amoroso did not require subcontractors to provide a 6% fee credit for deductive change order work. The CSU General Conditions are somewhat ambiguous relating to subcontractor fee credits on deductive changes. The following deductive CP amounts that were included in our review did not include 6% credits:

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Type of Change	CP Number	CP Amount
CO No. 2	CP 51	2,200
CO No. 2	CP 101	1,618
CO No. 4	CP 65	3,392
CO No. 4	CP 67R1	1,000
CO No. 4	CP 90R1	675
CO No. 3	CP 148	2,200
Total Sample		11,085
6% sub credit + 6% GC credit		705

Although the sampled amounts are insignificant in relation to total project Change Orders, the omission of credits for deductive changes appear to be in violation of the Contract General Conditions. CPDC (Chancellor's Office) reported additional CP's in the Post Performance Review dated November 19, 2001, that also excluded 6% credits.

Recommendation:

5. CPDC (Chancellor's Office) should further clarify the CSU General Conditions to more clearly define how subcontractor fee credits should be calculated on deductive change orders.

Management Response:

5. We agree. The 1998 version of the Contract General Conditions did not clearly define subcontractor fee credits for deductive change orders. Since then we implemented language in Contract General Conditions Article 6.04-c(7) that identifies costs for credits for deleted work. More recently we 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.

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Fringe and Labor Burden:

S. J. Amoroso furnished documentation to support their 53.50% labor fringe and burden rate. We found their method for calculations industry-standard and reasonable. No adjustments were warranted. Labor burden charged was as follows:

Labor Burden & Fringe Analysis	Burden Charged
Payroll Taxes - FICA	7.65%
Payroll Taxes - FUTA	0.80%
Payroll Taxes - State Unemployment	5.40%
Worker's Comp & Liability	6.71%
Overhead (401(k) and bonus accrual for mgmt.)	3.10%
Subtotal Total	23.66%
Union Costs	29.84%
Subtotal Total	53.50%

Change Order Report Analysis:

Van Pelt Construction Services provided a Change Order Log categorizing change orders by source. The log reflected \$104 less than Amoroso invoiced changes. Since the amount was immaterial, we did not review all of the 539 CP's to determine which CP was incorrectly listed. Six CP's, totaling \$161,210, were not coded and \$29,600 of CP's were coded as "Other." The following table summarizes the Van Pelt report:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	1,707,076	65.96%	16.52%
4.2 Unforeseeable job site conditions	457,309	17.67%	4.42%
4.3 Regulatory agency, bldg. code, safety, health	10,941	0.42%	0.11%
4.4 Originated by the University	221,093	8.54%	2.14%
4.5 Unavailability of specified materials	884	0.03%	0.01%
4.6 Other	29,600	1.14%	0.29%
Final Settlement	130,000	5.02%	1.26%
CP's Not Coded	31,210	1.21%	0.30%
Total Change Orders	2,588,113	100.00%	25.04%
Original Contract Amount	10,335,000		
Total	12,923,113		

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The University subsequently revised the report. The following table summarizes the redistributed Change Proposal Log:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	601,776	23.25%	5.82%
4.2 Unforeseeable job site conditions	1,601,462	61.88%	15.50%
4.3 Regulatory agency, bldg. code, safety, health	10,941	0.42%	0.11%
4.4 Originated by the University	373,050	14.41%	3.61%
4.5 Unavailability of specified materials	884	0.03%	0.01%
4.6 Other	-	0.00%	0.00%
Total Change Orders	2,588,113	100.00%	25.04%
Original Contract Amount	10,335,000		
Total	12,923,113		

Recommendation:

None

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DESIGN COSTS

Kaplan/McLaughlin/Diaz of San Francisco was A/E of record for the SFSU Student Center. Their contract, dated March 3, 1997, in the amount of \$778,352, was amended with numerous additional service amendments totaling \$150,157.

SFSU project files included "Account Payable" sheets that listed the balance of the total contract amount as well as each invoice but did not track payment by design phase. Additional service amendments were tracked separately. Our review disclosed one invoice, in the amount of \$3,100, was deducted from the base contract for the cost of a permit. This would normally be paid outside the agreement and charged as a reimbursable expense.

A \$3,000 invoice for the balance on additional service P707465 was deducted from the A/E's base contract but was still shown as an open balance on the additional service accounting record (SFSU showed a remaining balance on the base contract of \$2,903). Adding these amounts back to the remaining balance, results in an amended balance of \$9,003, suggesting that an invoice may not have been listed during the construction phase of the project.

The following is an analysis of the original contract, amendments and payments:

Description	Amount Approved	Amount Paid	Balance
Original Agreement	778,352	769,349	9,003
Amendment 1	36,370	36,370	-
Amendment 2	14,120	13,015	1,105
Amendment 3	3,700	3,700	-
Amendment 4	1,750	1,400	350
Amendment 5	1,300	1,250	50
Amendment 6	1,105	1,105	-
Amendment 7	4,775	4,775	-
Amendment 8	825	565	260
P607276	15,400	15,400	-
P707465	12,000	12,000	-
P707469	5,500	5,500	-
C806208	8,000	8,000	-
C806196	9,702	9,702	-
C806206	5,840	5,840	-
C901905	11,600	11,600	-
C903014	18,070	15,811	2,259

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Description	Amount Approved	Amount Paid	Balance
P908066	130	130	-
Subtotal Addt'l. Serv.	150,187	146,163	4,024
Total Agreement	928,539	915,512	13,027

Recommendations:

6. The University should confirm that the base contract has been paid in full. The final accounting sheets should be corrected and made part of the project files.
7. If not already instituted, SFSU's CPD&C should track payments to the base contract by design phases to prevent overpayments in a specific phase of the agreement. The accounting process should be automated in order to avoid the possibility of clerical errors.
8. Once the project is complete and additional services issued against an agreement are no longer required, the University should issue a deductive amendment to close out the additional service. (Currently, guidelines related to this issue are being added to SUAM for service agreements. Once published, refer to SUAM section 9786.03.)

Campus Responses:

6. We concur. The University has confirmed that the base contract was paid in full. The Design Contact Final Accounting Report has been corrected and filed.
7. We concur. As of July 2000, SFSU-CPDC has instituted an automated payment tracking system to track all major capital outlay contracts by design phase including base contracts and contract amendments.
8. We concur. A deductive change order will be issued to close out contract amendments in accordance with SUAM 9786.03 when a not-to-exceed service contract amendment will not be billed to the maximum.

PROJECT MANAGEMENT/INSPECTION SERVICES

Four proposals were received for project management and inspector of record (IOR) services. Van Pelt Construction Services (VPCS) was selected to perform on-site project management and IOR services. A substantial increase to the contract was approved due to the complexity of the project schedule and the overtime hours that were required as a result of the project remaining open during construction. KPMG reviewed the three additional service amendments issued against the service agreement and invoices processed throughout the project. We found the term of services consistent with the actual construction term.

The original agreement with VPCS was executed on December 24, 1998 in the amount of \$265,000. Three subsequent amendments increased the final agreement amount by \$140,300.

Van Pelt Construction Services	Fee Amount	Amt. Paid	Balance
Original Agreement	265,000	265,000	0
#1 - Overtime hours (issued at start of project)	72,000	72,000	0
#2 – Additional management	33,300	33,300	0
#3 – Additional staff 5 months, additional part-time principal	35,000	35,000	0
Subtotal Amendments	140,300	140,300	0
Total Agreement	405,300	405,300	0

Payments were monitored in the same manner as the design service agreement. All invoices were charged against the base contract although Van Pelt was billing for additional services as early as the first invoice issued. Standard accounting practices call for monitoring the charges against base contracts and additional services separately.

Recommendation:

9. Payments should be tracked against each additional service authorization. Please see Recommendation No. 7.

Campus Response:

9. We concur. As of July 2000, payments are tracked against each additional service authorization. Please see Response to Recommendation No. 7.

Fees paid for project management and inspection services totaled \$405,300, representing 3.13% of total construction costs. This is within industry standards of 2.5% to 3.5% for project management and inspection services.

ACCOUNTING

KPMG conducted a review of the University's cost accounting reporting system and invoice processing practices. SFSU's CPD&C provided an internal report that tracked the project expenditures in general categories. Typically, project cost reports are more detailed and include original line item budgets, commitments and expenditures. The current report does not provide the level of detail for a useful project management tool. KPMG understands there are no specific guidelines that suggest or recommend a more appropriate cost report.

Recommendation:

10. 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 Response:

10. 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

On October 11, 1999, Amoroso issued a letter to the SFSU’s CPD&C requesting a time extension. As a result of that letter, the project team met on December 6, 1999, and agreed to explore ways to mitigate impacts to the critical path schedule.

Van Pelt Construction Services issued a letter to the Contractor on February 15, 2000, stating that the extension would be determined at the end of the project. On June 15, 2000, S. J. Amoroso submitted a letter summarizing a meeting held on June 14, 2000. During that meeting, the daily general condition rate for time extensions was set at \$2,177 per day. The rate was further negotiated to \$2,121 per day for delays during construction and \$1,164 per day for delays at the end of the project. The Contractor requested a 105-day extension to allow time for punch list items that were submitted late and overall coordination difficulties throughout the project.

The project was delayed ninety-seven days beyond the original completion date of June 15, 2000. SFSU agreed that the Contractor was entitled to a 90-day extension, yet our review revealed that no days were allowed on the final settlement Change Order No. 16. The approved 90-day extension would still be 7 days short of the actual completion date. The following is an analysis of the final negotiations for the settlement change order:

		Requested Extended GC's @ 2,121.19	Requested Extended GC's @ 1,164.18	Requested Subtotal
Original Completion Date	15-Jun-00			
Notice of Completion	20-Sep-00			
Days Late	97			
During Construction	62 Days	131,514		
Project Completion to 9/29/00	43 Days		50,060	181,574
Final Amount Negotiated				<u>130,000</u>
Negotiated Savings				(51,574)

Recommendation:

- The University should include time extensions in change orders. Additionally, the University should document why seven days of liquidated damages were not assessed.

Campus Response:

11. We concur. The Project Administration Reference Manual addresses the assessment of liquidated damages by credit change order, and waiver of liquidated damages by time extension, with adequate justification filed as back up with the final settlement change order. The University has now documented why seven days of liquidated damages were not assessed.

MAJOR EQUIPMENT REVIEW

The initial review of Contract Documents and Specification was performed at the University the week of November 12, 2001. Van Pelt Construction Services furnished a submittal log and we selected our sample from that log. Submittal records were provided and reviewed at the campus.

Of the submittals reviewed, all were traced from Project specifications to 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
8330	Cornell Iron Works	9" Centers, w/"Detectedge"	Overhead Coiling Door
14420	National Wheel-O-Vator	HBC 108	Wheel Chair Lift
16200	Cummins West	400 DFCE	Generator
16200	Power Command	H530	Digital Control Panel
16200	NEMA1	OTC 336934	Transfer Switch
16200	NEMA1	305-0813-01	Battery Charger

Recommendation:

None



San Francisco
State University

Office of the Vice President
for Business & Finance

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June 18, 2002

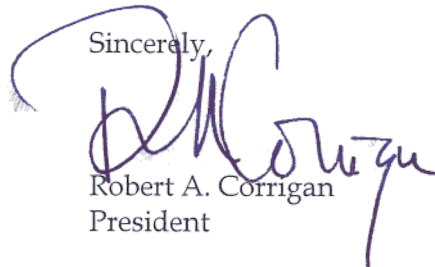
Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, California 90802-4210



Dear Mr. Mandel:

We have carefully reviewed the KPMG Audit Report on Construction Project Number 350 - San Francisco State University, Cesar Chavez Student Center Renovation. The report identified areas where additional efforts are needed, and we are taking actions to implement the recommendations.

We understand the Chancellor's Office is responding to recommendations #5 and 10. Our responses to the other recommendations are attached. Questions regarding our responses may be directed to Don Scoble, Vice President for Business and Finance, at 415/338-1323 or Jim Van Ness, Internal Auditor, at 415/338-7183.

Sincerely,

Robert A. Corrigan
President

JVN/id

Attachment

cc: Don W. Scoble, Vice President for Business and Finance
Leroy Morishita, Vice President, Physical Planning & Development
Simon Lam, Associate Vice President, Capital Planning, Design & Construction
Guy Dalpe, Managing Director, Student Center
Jim Van Ness, Internal Auditor
Franz Lozano, Associate Internal Auditor

Recommendation 1

The University should provide formal written authorization for contractor bid withdrawal requests. The authorization should be kept as part of the permanent project records.

Campus Response

We concur. The University is providing formal, written authorization for contractor bid withdrawal requests. A project award checklist was also developed to ensure that written authorization of bid withdrawal is issued prior to contract award. The authorization will be kept as part of the permanent project records.

Recommendation 2

The University should establish a policy to ensure that appropriate subcontractor substitution documentation is maintained in the project files.

Campus Response

We concur. The University has amended its Project Administration Reference Manual by adding specific language regarding subcontractor substitution documentation. Also, the issue of subcontractor status report and substitution is being periodically addressed in the weekly construction meetings as a discussion item.

Recommendation 3

The University should determine if the lack of substitution approvals compromised public bidding practices and whether or not Amoroso should be assessed penalties.

Campus Response

We concur. The University agrees that Amoroso appears to have violated Section 4106 PCC. The University contacted each of the four listed subcontractors (Roscoe Steel, Bay City Mechanical, Architectural Glass and Aluminum, and North Bay Drywall) and was informed that the scope reductions and subcontractor substitutions were consensual. The scope reductions were generally of the portions of the listed (first-tier) subcontractors' scope, which were planned to be sub-contracted to second-tier subcontractors. Furthermore, it appears that Amoroso did not benefit from these scope adjustments and subcontracts. For example, the total value of the HVAC sub-contract of Bay City Mechanical and Allied Heating increased from \$725,000 to \$835,000. Therefore, it is the opinion of the University that the public interest was not compromised and that no penalties should be assessed.

Recommendation 4

The University should conduct additional investigation (outside of the current scope of this report) to determine whether the lack of existing building documentation relieves the A/E of responsibility for the additional change order costs due to Errors and Omissions.

Campus Response

We concur. The University has reviewed the project records and determined that there were inaccurate record drawings of the original building as well as subsequent improvements, and inaccurate inventory of asbestos-containing building materials. The resulting additional work required was not part of the initial construction contract. The A/E should be relieved from additional change order costs.

Recommendation 6

The University should confirm that the base contract has been paid in full. The final accounting sheets should be corrected and made part of the project files.

Campus Response

We concur. The University has confirmed that the base contract was paid in full. The Design Contact Final Accounting Report has been corrected and filed.

Recommendation 7

If not already instituted, SFSU's CPD&C should track payments to the base contract by design phases to prevent overpayments in a specific phase of the agreement. The accounting process should be automated in order to avoid the possibility of clerical errors.

Campus Response

We concur. As of July 2000, SFSU-CPDC has instituted an automated payment tracking system to track all major capital outlay contracts by design phase including base contracts and contract amendments.

Recommendation 8

Once the project is complete and additional services issued against an agreement are no longer required, the University should issue a deductive amendment to close out the additional service. (Currently, guidelines related to this issue are being added to SUAM for service agreements. Once published, refer to SUAM section 9786.03.)

Campus Response

We concur. A deductive change order will be issued to close out contract amendments in accordance with SUAM 9786.03 when a not-to-exceed service contract amendment will not be billed to the maximum.

Recommendation 9

Payments should be tracked against each additional service authorization. Please see Recommendation No. 7.

Campus Response

We concur. As of July 2000, payments are tracked against each additional service authorization. Please see Response to Recommendation No. 7.

Recommendation 11

The University should include time extensions in change orders. Additionally, the University should document why seven days of liquidated damages were not assessed.

Campus Response

We concur. The Project Administration Reference Manual addresses the assessment of liquidated damages by credit change order, and waiver of liquidated damages by time extension, with adequate justification filed as back up with the final settlement change order. The University has now documented why seven days of liquidated damages were not assessed.

Memorandum

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

Date: May 29, 2002

RECEIVED
UNIVERSITY AUDITOR

JUN - 4 2002

THE CALIFORNIA STATE
UNIVERSITY

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

Subject: **Audit Report**
Cesar Chavez Student Center, Project No. SF-350
San Francisco State University

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. 5:

We agree. The 1998 version of the Contract General Conditions did not clearly define subcontractor fee credits for deductive change orders. Since then we implemented language in Contract General Conditions Article 6.04-c(7) that identifies costs for credits for deleted work. More recently we 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.

Accounting

Response to Item No. 10:

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

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

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

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SAN DIEGO

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SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

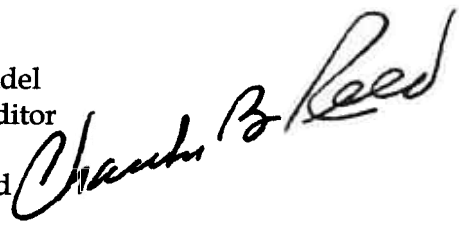
TANISLAU

August 6, 2002

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor



SUBJECT: KPMG Draft Final Report on the *Cesar Chavez Student Center*
(Project No. 350) at San Francisco State University

In response to your memorandum of August 6, 2002, I accept the response as submitted with the draft final report on the *Cesar Chavez Student Center* project at San Francisco State University.

CBR/amd

Enclosure

cc: Robert A. Corrigan, President
Jim Van Ness, Internal Auditor
Richard P. West, Executive Vice Chancellor and
Chief Financial Officer