

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

PROJECT OVERVIEW

KPMG was retained by the California State University (CSU), Office of the University Auditor, to perform a review of the Sonoma State University's (SSU) complete renovation of the Ruben Salazar building. The 115,427 square foot, two-story, building had been the University library prior to the construction of a new campus library. The remodel consisted of comprehensive renovations and upgrades to accommodate three (3) major functions; new instructional growth, student and administrative services, and the Technical High School. Additionally, the renovation was design to achieve code compliance and correct deficiencies throughout the entire facility.

The project included reconstruction of the interior concrete shear walls and structural steel systems, interior windows, storefront systems, doors, hardware and glazing, interior wall, and ceiling systems. The major components of the renovation also included the following:

- Fire and life safety improvements;
- Accessibility compliance improvements;
- Structural system seismic improvements;
- Mechanical systems renovations;
- Electrical system improvements;
- Fire protection systems improvements;
- Roof replacement.

The major portion of the project was constructed by West Coast Contractors, Inc. The University hired a separate contractor (Cal, Inc.) to perform pre-renovation demolition and asbestos abatement. Cal, Inc.'s scope of work included interior demolition and related abatement of floor materials, partitions, ceiling systems, plumbing fixtures, piping, mechanical equipment, electrical equipment and systems, elevators and other building appurtenances. KPMG evaluated preliminary project files for Cal, Inc. and determined that there were no demolition change orders. It is the position of KMPG that CSU was not subject to any significant exposures of risk that warranted the full scope of our review. Contract specifics are discussed in the "Construction Bid Process" section of this report.

During the week of February 3, 2003, KPMG reviewed project records from the following firms involved in the project's development and execution:

Contractor:	West Coast Contractors, Inc.
Architect/Engineer (A/E):	TLCD Architecture
Inspection (IOR):	McGowan Construction Services
Campus:	Capital Planning Design & Construction (CPDC) and Contracts and Procurement

**KPMG Construction Cost Review
 Sonoma State University – 597
 Ruben Salazar Renovation Project**

DESIGN COSTS

CPDC (Campus) selected TLCD Architecture as the Architect for the project. TLCD’s contract, dated October 4, 1999, in the amount of \$1,017,600, was appropriately based on the CSU fee grid with a budget amount of \$12,000,000.

The University authorized three (3) additional services totaling \$134,121. Specifically, the extra services covered the following:

1. Redesign of schematic design services - \$18,937
2. Redesign of mechanical systems, classrooms, rooftop mechanical units and interior stairs - \$63,089
3. Revise lighting circuitry - \$7,167 and revise the mechanical system to an IDEC system - \$44,928

The following is an analysis of the basic contract services and extra services:

Phase/ESA	Original Agreement	Invoiced	Balance on Agreement	Paid	Unpaid Balance
Schematics	193,344	193,344	-	193,344	-
Preliminary	142,464	142,464	-	142,464	-
Working Drawings	388,621	388,621	-	388,621	-
Bidding	40,908	40,908	-	40,908	-
Construction Admin.	252,263	251,759	504	204,737	47,022
Basic Services Total	1,017,600	1,017,096	504	970,074	47,022
Extra Service 1	18,937	18,937	-	18,937	-
Extra Service 2	63,089	63,020	69	63,020	-
Extra Service 3	52,095	48,414	3,681	48,414	-
Claimed by TLCD	-	21,416			21,416
Extra Service Total	134,121	151,787	3,750	130,371	21,416
Expenses		34,850		32,403	2,448
Total A/E Fees	1,151,721	1,203,733	4,254	1,132,848	70,886

At the time of our review, TLCD had not invoiced the \$504 balance for Construction Administration phase of the original agreement. They also did not charge the University the full amounts authorized on Extra Services 2 and 3, leaving a \$3,750 balance.

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

Recommendation:

1. On future projects, when additional service authorizations are issued, and it is later determined that the not-to-exceed prices are not billed to the maximum, a deductive change should be issued to close out the amendment and disencumber the allotted funds. (Guidelines related to this issue have been added to SUAM. Refer to SUAM section 9786.03.)

Campus Response:

1. The University agrees. The Senior Director for SSU Capital Planning, Design and Construction (SSU-CPDC) will be issued instructions requiring that additional service authorizations that are not billed to the maximum be closed out with a service agreement amendment. Upon receipt of a fully executed amendment any remaining obligation will be disencumbered.

Target Completion Date: October 10, 2003.

TLCD have claimed additional services in the amount of \$21,416 that were not authorized by the University, which have not been paid and are not being acknowledged by SSU. Sonoma State has also challenged the remaining balance on the Construction Administration phase and reimbursable expenses in the amount \$49,470. It is the position of the University that these costs were incurred to correct inaccurate drawings, and are offset by TLCD's failure to administer the project in a timely manner, and for change order work due to errors/omissions (E/O) on the original drawings. At the time of our review these issues were documented by the University in a draft letter to the A/E that is to be formally presented to TLCD for resolution. Subsequent to our audit fieldwork, the campus has presented their position for non-payment to TLCD in a letter dated March 10, 2003. To date TLCD has not concurred with nor rejected the University's position.

Recommendation:

- 2a. KMPG recommends that the University issue a follow-up letter to TLCD indicating that their lack of response since March 10th will be considered their concurrence with the University's position or provide a deadline for TLCD's response.

Campus Response:

- 2a. The University agrees. A final letter was issued to TLCD via certified mail on August 12, 2003.

SSU considers this recommendation completed.

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

Recommendation:

- 2b. CPDC (Chancellor's Office) and Legal Counsel should develop CSU recourse guidelines and procedures for campus contract managers to follow when they suspect that the Architect E/O changes on projects will exceed a certain threshold or when the Architect of Record fails to meet contractual performance standards.

Management Response:

- 2b. We agree. CPDC shall consult with General Counsel and then modify the Architect/Engineer agreement to detail the ramifications of failing to meet CSU design performance standards. We shall also incorporate the recourse guidelines and procedures in SUAM. The new agreement language and changes to SUAM shall be presented in our April 2004 training sessions.

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

CONSTRUCTION BID PROCESS

The final project estimate, provided by the A/E, was \$11,500,000. The original bid date was established as June 12, 2001, which was changed to June 19, 2001 by Addendum.

Prior to bid, three (3) Addendums were issued as follows:

Addendum #1: Issued May 30, 2001 – Revisions to specifications and drawings.

Addendum #2: Issued June 6, 2001 – Changed the bid date to June 19, 2001, drawing clarifications, and miscellaneous specification changes.

Addendum #3: Issued June 13, 2001 – Various additions to the Project Manual.

The initial specifications listed five (5) Deductive Alternates as follows:

Alternate 1: Delete new curtain wall at first floor and aluminum frame windows at second floor.

Alternate 2: Exterior paint as described in Specifications, Section 01230, 3.1.B.

Alternate 3: Delete horizontal chair rail trim.

Alternate 4: Exterior concrete paving as described in Specifications, Section 01230, 3.1.D.

Alternate 5: Change suspended acoustical ceiling panels.

There were five (5) bidders listed on the Abstract of Bids, with Thompson Pacific Construction being the apparent low bidder at \$15,598,000. However, Thompson Pacific was not qualified to bid projects in excess of \$13,558,000. It was their contention that since the project was estimated at \$11,500,000 and they did not know the project bid would exceed that estimate, they should be considered. In documentation located in the project files, we found that SSU corresponded with the Chancellor's office regarding this issue. CPDC contacted CSU legal counsel whom recommended award to the second lowest bidder in accordance with Public Contract Code 10760 and 10761. It was the final determination of the CSU Trustees that the Thompson Pacific bid was disqualified. KPMG found that the University adequately documented the selection process. Subsequently, the University executed the construction agreement on June 29, 2001, with the second lowest bidder, West Coast Contractors, Inc. in the amount of \$15,920,000. None of the deductive alternates were accepted or incorporated into the original construction contract.

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed.
- West Coast Contractors, Inc. furnished appropriate Payment and Performance Bonds in the original contract amount as required.
- West Coast Contractors, Inc. is a California Corporation.
- The original construction period covered 360 calendar days.
- Liquidated damages were stated to be \$1,500 per day.
- Notice to Proceed was issued on August 1, with a start date of August 6, 2001.
- Original completion was established as August 1, 2002.
- Completion of (beneficial occupancy) of the telecom closets for classroom and workstation spaces occurred on July 17, 2002. Partial completion of circulation spaces occurred on August 10, 2002 (9 days after the original completion date).
- Occupancy prior to final project acceptance occurred on August 19, 2002 (18 days after the original completion date).
- There was an 18-day time extension granted during project construction.
- Notice of Completion was recorded as November 12, 2002 (85 days after the revised completion date).

For the demolition work, the bid date was October 17, 2000, with an initial project estimate in the amount of \$480,000. Two (2) addendums were issued to the contract documents. Cal Inc. submitted the low bid in the amount of \$538,589 and was awarded a construction agreement on November 3, 2000.

Additional findings related to this work include:

- The original construction period was to cover a period of 90 calendar days.
- Liquidated damages were stated to be \$500 per day.
- Notice to Proceed was issued on January 3, 2001, with a start date of January 4, 2001.
- Original completion was established as April 3, 2001.
- Notice of Completion was recorded as April 20, 2001, 17 days later than the original completion date.
- A 17.5-day time extension was granted on Change Order 1.

Recommendation:

None

CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

The "List of Proposed Subcontractors" (CM Form 701.04) identified 16 trade divisions and subcontractors. The "Expanded List of Subcontractors" (CM Form 701.04 A) identified the same divisions and subcontractors. West Coast requested that Se-Cant Flooring be substituted with Kim's Flooring due to Se-Cant's failure to execute a subcontract. Further, it was determined that Se-Cant had ceased business operations. The substitution was properly requested by West Coast. Because of the failure in attempting to locate Se-Cant, the University was not able to process appropriate notification to the subcontractor. We did not locate the University's approval to West Coast for the substitution.

As part of the bid process review, West Coast provided the original bid files. In most cases, and with all major trade work, the Contractor obtained multiple bids. The following trade bids were examined in detail:

- **Painting:** Four (4) bids were received in the amounts ranging from \$186,000 to \$384,700. A subcontract was issued to the low bidder, Color Coatings, in the amount of \$186,000.
- **Drywall:** Four (4) bids were received ranging from \$1,116,758 to \$1,590,800. A subcontract was issued to the low bidder, North Counties Drywall, Inc. in the amount of \$1,116,758.
- **Mechanical:** Four (4) bids were received in amounts between \$4,900,000 and \$5,634,000. A subcontract was issued to the low bidder, Peterson Mechanical, in the \$4,900,000.
- **Electrical:** Five (5) bids were received in amounts ranging from \$2,350,000 to \$2,283,000. West Coast deemed the second lowest bid as the most responsive and HGH Electric, Inc. was awarded a subcontract in the amount of \$2,283,000.

Recommendation:

3. Even though Se-Cant was unable to be contacted, the University should have formally documented their approval for the substitution for West Coast and project files.

Campus Response:

3. We concur. The Director of Contracts and Procurement will be issued instructions to formally document approval of a subcontractor substitution.

Target Completion Date: October 10, 2003.

CONSTRUCTION CHANGE ORDERS

Over 100 Change Order Requests (COR's) were incorporated into seven (7) Change Orders. At the time of our review, Change Orders Nos. 6 and 7 had not been settled. Including the preliminary amounts for these two (2) changes, \$559,771, or 3.52%, was added to the original contract amount of \$15,920,000. Change Order 7 addresses numerous negotiations and also provides for an 85-day non-compensable time extension. Additionally, a negotiated settlement of liquidated damages will be included as a charge to West Coast in the amount of \$40,500. This change will represent the final settlement of all claims and address final agreement on all extra costs presented by the Contractor.

Changes due to A/E errors and omissions totaled \$676,287, or 4.25% of the total contract amount, which is slightly higher than industry averages of approximately 3% to 4% for a project of this type. As previously discussed, the University is in the process of having TLCDC Architecture absorb approximately \$71,000 of costs to offset excessive errors and omission changes. As previously discussed in the "Design Costs" section of this report, a final settlement has not been reached.

Other significant change orders were:

- Change Order 4.1 Beneficial occupancy of telecom closets occurred on July 17, 2002, which was earlier than the original August 1, 2002 completion date.
- Change Order 4.2 Beneficial occupancy of circulation areas, restrooms, electrical closets occurred on August 10, 2002, 9 days after original completion.
- Change Order 4.3-6 Provided an 18-day non-compensable time extension.
- Change Order 5.1 Occupancy prior to project acceptance of all areas occurred on August 19, 2002, 18 days after original completion.
- Change Order 5.2 Reduction of liquidated damages to \$750 per day due to occupancy of the building.

During our review of COR's included as backup for change orders, we found that the University allowed West Coast a 10% fee on the subcontractor's 15% mark-up. As stated in the General Conditions, Paragraph 6.01.c(4), "no mark-up on mark-up is permitted." In our 76% sample of total COR's, we found that approximately \$7,800 had been overpaid to West Coast Contractors. Applying the same overcharge percentage to the total COR's, we estimate the total overcharge is approximately \$10,000. It is our understanding that the University will include a credit for this overpayment on West Coast's final change order.

**KPMG Construction Cost Review
 Sonoma State University – 597
 Ruben Salazar Renovation Project**

Recommendation:

4. The University should recover the overpayment from West Coast for charging mark-ups on subcontractor mark-ups. On future projects, the University should ensure that contractors are paid only contractually allowed mark-ups on change orders for overhead and profit.

Campus Response:

4. The University agrees. In this instance the recovery was completed with the execution of Change Order #7, dated May 5, 2003.

SSU considers this recommendation completed.

As part of our review process, we sampled change orders and traced subcontractor estimates to the actual subcontractor change orders. West Coast furnished all subcontractor files and provided a “Subcontract Detail Report” that reflected each subcontract and the change orders issued against them. KPMG reviewed approximately 30 COR’s totaling \$425,000, or 76% of the total changes. KPMG found that West Coast’s records were accurate and we were able to trace all sampled subcontractor quotes/backup included with the University change orders to the applicable subcontract change orders.

Labor Fringe & Burden

West Coast Contractors, Inc. included minimal labor costs on change orders. However, as a result of our request, they provided a labor rate analysis. On prevailing wage rates, West Coast charged between 15.3% and 28.8% for payroll taxes, workman’s compensation insurance, state and federal unemployment costs. These are acceptable and fall within the normal range for labor burden.

Change Order Report Analysis

CPDC (Campus) provided a log categorizing change orders by source. The following table summarizes their report:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	676,287.00	120.81%	4.25%
4.2 Unforeseeable job site conditions	1,046.00	0.19%	0.01%
4.3 Regulatory agency, bldg. code, safety, health		0.00%	0.00%
4.4 Originated by the University	-73,832.00	-13.19%	-0.46%
4.5 Unavailability of specified materials		0.00%	0.00%
Uncoded	-3,230.00	-0.58%	-0.02%
Liquidated Damages	-40,500.00	-7.24%	-0.25%

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

Total Change Orders	559,771.00	100.00%	3.52%
Original Contract Amount	15,920,000.00		
Total	16,479,771.00		

Recommendation:

None

PROJECT MANAGEMENT/INSPECTION SERVICES

SSU issued a Request for Qualifications (RFQ) to provide Inspector of Record (IOR) services. CPDC (Campus) provided in-house project management services. The RFQ for IOR services included project specific information as well as a request for billing rates, which essentially served as a formal Request for Proposals. From the three (3) proposals received, Richard McGowan Construction Services (McGowan) was selected as the most qualified firm to perform on-site inspection services.

McGowan was awarded a service agreement in the amount of \$46,800 on September 18, 2001. Total billings and payments against the agreement totaled \$46,018, leaving a balance of \$782. As previously recommended in this report, the balance should be credited back against the original agreement to close out the agreement.

For the purpose of analyzing total project management and IOR costs, we have included an amount to cover the University's project manager salary and benefits. SSU's accounting department did not capitalize these costs against the project during construction. We found that practices vary from campus to campus in capturing project administration costs. Some campuses "bill" the project monthly while others utilize a single billing at the end of the project. SSU is in the process of developing a capitalization model to recover these costs based on GAAP. The University provided documentation to substantiate \$139,490.22 for in-house cost for project management. Payments to McGowan and the University's CPDC costs totaled \$186,290, representing 1.13% of total construction contract. Since no supervisory or support staff was added to project management services, we expected management costs to be significantly lower than the industry norm of 2.5% to 3.5%.

Recommendation:

None

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

LIQUIDATED DAMAGES

The University took full occupancy of the Salazar project on August 19, 2002 - the contractual completion date subsequent to the 18-day time extension. However, the Notice of Completion was not executed until November 11, 2002, 85 days beyond the completion date. This would have equated to \$63,750 in liquidated damages (85 days x \$750 per day). During these 85 days, West Coast was completing minor work, completing punch lists items, providing equipment training, and preparing as-built drawings. Specifically, the following are significant dates that should be considered in the assessment of liquidated damages:

<u>Close Out Items</u>	<u>Completed</u>
Warranties and Operating/Maintenance Manuals	9/3/02
Return of Master Key	10/23/02
As-Built Drawings	10/09/02
State Fire Marshall Inspection	8/12/02
Elevator Certification #2	8/12/02
Removal of Temporary Facilities (trailers)	8/26/02
Final Interior Clean	10/14/02

The Contractor also had numerous change order requests for issues that had not been resolved. Change Order 6, dated October 25, 2002, addressed 22 of these items. Change Order 7, dated November 15, 2002, identified an additional 15 items. As of the date of this report, neither of these change orders had been formally approved. Further, no payment of retainage has been made to date.

Subsequent to our fieldwork, the University executed these final change orders.

Recommendation:

None

The University took the position that since the project was occupied and classes were not delayed, a reduced amount of damages was reasonable and fair. The final amount for liquidated damages assessed was \$40,500. We believe that Sonoma State University negotiated in the best interest of the Trustees and was successful in negotiating a favorable outcome for the CSU.

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

MAJOR EQUIPMENT REVIEW

The initial review of Contract Documents and Specification was performed at the University. KPMG was 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. A project walk-through was conducted with campus representatives 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 in the Salazar Renovation project:

Div. #	Brand	Model #	Description
15000	Bell & Gosset	5A Series 1510	Centrifugal Pumps - Base Mounted
15000	A. O. Smith	BTH-150	Gas Fired Water Heater
15800	Ingersoll-Rand	EP10	Air Compressor
15800	Zeks Heatsink	35 HSE	Air Dryer
15800	DLI Des Champs	PV-MZP-8725-OAS	HVAC Air Handler Units
16426	Square D	Class 6045	Metal-Enclosed Load Interrupter Switchgear
16426	Square D	800A 480Y/277 VAC	Power Style QED-2 Switchboard
16460	Square D	75KVA 480V-208Y/120V	Transformer Dry 3 PH
16460	Square D	112.5KVA 480V-208Y/120V	Transformer Dry 3 PH
16480	Square D	Class 1310 TVSS Series	Surgeologic Surge Protective Device

Recommendation:

None

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

ACCOUNTING

KPMG conducted a review of the University’s cost accounting reporting system and invoice processing practices. The SSU Contracts and Procurement, in conjunction with financial accounting, provided a number of automated reports generated by the recently implemented PeopleSoft System that tracked the project budget and actual expenditures. Additionally, the University tracks other various financial data utilizing electronic spreadsheet applications.

We found the practices for tracking project costs at Sonoma State exceptional since they are attempting to utilize the PeopleSoft financial software application to account for and report on capital projects. This eliminates a significant amount of redundancy in entering invoice information by multiple departments as we often found at other campuses.

When PeopleSoft was first implemented, SSU realized the need to establish a method for tracking certain categories of expenses for the larger Capital Outlay projects. This was necessary in order for them categorize costs for CPDC (Campus) reporting purposes. Their “account structure,” based on FIRMS Object Codes, did not provide a way to identify and summarize expenditures within the required CPDC categories: Architectural Services, Construction Management, Construction, Group II Equipment, Contingency, and Land Acquisition.

The financial model that SSU developed was to:

1. Identify projects that required this type of tracking as “COMPLEX.”
2. Establish a unique DEPARTMENT ID number that identified each “complex” project.
3. Create certain “standard” PROJECT ID numbers that identified the categories needed for CPDC tracking. The following Project ID Numbers were established:
 - A. 10080 – Architectural Services
 - B. 10081 – Construction Management
 - C. 10082 – Construction
 - D. 10083 – Group II Equipment
 - E. 10129 – Contingency
 - F. 10111 – Land Acquisition
4. They used the ACCOUNT CHARTFIELD to identify specific type of expenditures within the PROJECT ID: (i.e. travel, printing, advertising).

**KPMG Construction Cost Review
Sonoma State University – 597
Ruben Salazar Renovation Project**

It is our understanding that new requirements have since been suggested by the Chancellor's Office. New Object Codes (accounts) have been established for project categories. SSU is in the process of adapting their current model to comply with the Chancellor's Office directive.

Recommendation:

None



DIVISION OF ADMINISTRATION AND FINANCE
1801 East Cotati Avenue
Rohnert Park, California 94928-3609

September 11, 2003

Larry Mandel
University Auditor
401 Golden Shore, 4th Floor
Long Beach, California 90802-4200

Dear Mr. Mandel:

RECEIVED
UNIVERSITY AUDITOR

SEP 15 2003

THE CALIFORNIA STATE
UNIVERSITY

On behalf of President Armiñana, I am submitting the campus response to KPMG Audit Report on Construction Project Number 597 Sonoma State University, Ruben Salazar Renovation Project. Kurt Koehle has also forwarded this response via email to lmandel@calstate.edu per your August 29, 2003 memorandum.

Please contact Kurt Koehle (kurt.koehle@sonoma.edu) on my staff for additional information and follow up.

Sincerely,

Laurence Furukawa-Schlereth
Chief Financial Officer and
Vice President for Administration and Finance

Enclosures

Cc: President Ruben Armiñana
Letitia Coate, Controller and Senior Director for Financial Services
Kurt Koehle, Director of Internal Operations
Ruth McDonnell, Director of Contracts and Purchasing
Bruce Walker, Senior Director for Capital Planning, Design and Construction
Steve Wilson, Associate Vice President for Administration and Finance

THE CALIFORNIA STATE UNIVERSITY

Bakersfeld • Chico • Dominguez Hills • Fresno • Fullerton • Hayward • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay • Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • San Luis Obispo • San Marco • Sonoma • Stanislaus

DESIGN COSTS

Recommendation:

On future projects, when additional service authorizations are issued, and it is later determined that the not-to-exceed prices are not billed to the maximum, a deductive change should be issued to close out the amendment and disencumber the allotted funds. (Guidelines related to this issue have been added to SUAM. Refer to SUAM section 9786.03.)

Campus Response:

The University agrees. The Senior Director for SSU Capital Planning, Design and Construction (SSU-CPDC) will be issued instructions requiring that additional service authorizations that are not billed to the maximum be closed out with a service agreement amendment. Upon receipt of a fully executed amendment any remaining obligation will be disencumbered.

Target Completion Date: October 10, 2003.

Recommendation:

- 2a. KMPG recommends that the University issue a follow-up letter to TLCD indicating that their lack of response since March 10th will be considered their concurrence with the University's position or provide a deadline for TLCD's response.

Campus Response:

The University agrees. A final letter was issued to TLCD via certified mail on August 12, 2003.

SSU considers this recommendation completed.

CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

Recommendation:

3. Even though Se-Cant was unable to be contacted, the University should have formally documented their approval for the substitution for West Coast and project files.

Campus Response:

We concur. The Director of Contracts and Procurement will be issued instructions to formally document approval of a subcontractor substitution.

Target Completion Date: October 10, 2003.

CONSTRUCTION CHANGE ORDERS

Recommendation:

4. The University should recover the overpayment from West Coast for charging mark-ups on subcontractor mark-ups. On future projects, the University should ensure that contractors are paid only contractually allowed mark-ups on change orders for overhead and profit.

Campus Response:

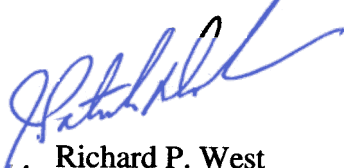
The University agrees. In this instance the recovery was completed with the execution of Change Order #7, dated May 5, 2003.

SSU considers this recommendation completed.

Memorandum

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

Date: October 17, 2003

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



Subject: **Audit Report**
Ruben Salazar Renovation, Project No. 597
Sonoma 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 are on the attached page, 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

DESIGN COSTS

Recommendation:

- 2b. CPDC (Chancellor's Office) and Legal Counsel should develop CSU recourse guidelines and procedures for campus contract managers to follow when they suspect that the Architect E/O changes on projects will exceed a certain threshold or when the Architect of Record fails to meet contractual performance standards.

Management Response:

We agree. CPDC shall consult with General Counsel and then modify the Architect/Engineer agreement to detail the ramifications of failing to meet CSU design performance standards. We shall also incorporate the recourse guidelines and procedures in SUAM. The new agreement language and changes to SUAM shall be presented in our April 2004 training sessions.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

October 27, 2003

CHICO

MEMORANDUM

DOMINGUEZ HILL

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Ruben Salazar Renovation Project*
(Project No. SON- 597) at Sonoma State University

LONG BEACH

LOS ANGELES

In response to your memorandum of October 27, 2003, I accept the response as submitted with the draft final report on the *Ruben Salazar Renovation Project* at Sonoma State University.

MARITIME ACADEMY

MONTEREY BAY

CBR/bth

NORTHRIDGE

Enclosure

POMONA

cc: Ruben Armiñana, President

SACRAMENTO

J. Patrick Drohan, Assistant Vice Chancellor, CSU CPDC

Dennis Hordyk, Assistant Vice Chancellor, Financial Services

SAN BERNARDINO

Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS