

**CALIFORNIA STATE UNIVERSITY,
LOS ANGELES**

GOLDEN EAGLE FACILITY – BOOKSTORE/DINING

Final Report

August 27, 2004

**KPMG Construction Cost Review
CSU Los Angeles – LA 162
Golden Eagle Facility – Bookstore/Dining**

PROJECT OVERVIEW

KPMG was retained by the California State University's (CSU) Office of the University Auditor to perform a review of CSU – Los Angeles (CSULA or the University) Bookstore/Dining Facility known as the Golden Eagle Facility. The project totaled 135,639 square feet of new construction and renovation of space vacated within the existing Biological and Physical Sciences Building.

The project included approximately 110,000 gross square feet of new construction in a three-story building with a partial basement. Construction included on-site utility extensions, site work, landscaping, pile and spread foundations, and a structural steel framing system. The Golden Eagle Facility was viewed as the keystone building in a new campus hub. It establishes an essential focal point for student, faculty, staff, and alumni interaction.

The Golden Eagle includes more than 30,000 square feet of meeting and event space, 20,000 square feet for a University Bookstore that is operated by Barnes and Noble, and a 400-seat food court that offers a variety of dining options. The Golden Eagle's new University Club restaurant will serve sit-down dining. Additionally, the building has small rooms for group events, a state-of-the-art boardroom, and outside patios. To operate the hospitality elements of the project, University Auxiliary Services has formed the Golden Eagle Hospitality, a full-service catering and event planning service group.

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

Contractor (GC):	Bernard Brothers Construction (BBC)
Architect/Engineer (A/E):	Wou & Partners/Hammel, Green, Abrahamson (HGA)
Project Management (PM):	CSULA Planning & Construction (P&C)
Inspection Services:	Twining Laboratories And In-House Campus Staff
Constructability/Value Eng:	Hoffman and Associates

**KPMG Construction Cost Review
 CSU Los Angeles – LA 162
 Golden Eagle Facility – Bookstore/Dining**

DESIGN COSTS

Wou & Partners (Wou) designed the CSU Los Angeles Bookstore-Dining Services Building. This project was delegated to the campus in May of 2002, after the project was bid. Wou was selected by CPDC-Chancellor’s Office (CPDC-CO). Wou’s agreement, dated December 6, 1999, in the amount of \$1,114,758, was amended by eleven Extra Service Authorizations (ESA) totaling \$569,489 and authorized by CPDC-CO. In documentation provided by CPDC-CO, additional design services described in ESA 1 – 6 totaling \$441,600 were known prior to construction and was budgeted at the onset of the project. During the course of construction, Wou was acquired by Hammel, Green, Abrahamson (HGA), who completed the project.

We performed a review of the CPDC-CO records and tracked payments to authorized agreements as follows:

Date	Number	Description	Approved	Amt. Paid	Bal. Open
24-Nov-99	Original Agreement	Schematic	210,474	210,474	-
		Preliminary	155,086	155,086	-
		Working Drawings	423,053	423,053	-
		Bidding	44,532	44,532	-
		Construction Administration	274,613	274,613	-
		Expenses	7,000	7,000	-
Total	Basic Services		1,114,758	1,114,758	-
21-Mar-00	Extra Service #1	Food Service Design	116,600	116,600	-
7-Jan-00	Extra Service #2	Acoustic Design	25,000	25,000	-
12-Jan-00	Extra Service #3	Audio-Visual Consulting	35,000	35,000	-
12-Jan-00	Extra Service #4	Building Signage & Graphics	40,000	40,000	-
12-Jan-00	Extra Service #5	Lighting Consulting	30,000	30,000	-
14-Feb-00	Extra Service #6	FF&E Selection/Coordination	195,000	195,000	-
24-Feb-00	Extra Service #7	Increase in Construction Value thru WD	37,369	37,369	-
19-Mar-01	Extra Service #8	Detailed Lighting Survey	45,000	45,000	-
19-Mar-01	Extra Service #9	Existing Main Power Conduits	8,500	8,500	-
24-Jul-01	Extra Service #10	Increase in Construction Value thru CA	15,123	15,123	-
9-Aug-01	Extra Service #11	Design Revisions	21,897	21,897	-
Total	Extras		569,489	569,489	-
Total	A/E Agreement		1,684,247	1,684,247	-

CSU Los Angeles was responsible for managing the Construction Administration Phase of the A/E Agreement.

Recommendation:

None

CONSTRUCTION BID PROCESS

The project was constructed under the standard CSU design/bid/build approach. Prior to bid, two Addendums were issued:

- Addendum #1 – Extended the bid date to May 3, 2001.
- Addendum #2 – Issued April 25, 2001, extended the bid date to May 10, 2001, and modified various specification sections.

Wou estimated the project costs at \$18,000,000. The Abstract of Bids listed four responsive bidders with the low base bid of \$22,495,000, submitted by Bernards Bros. Construction. The initial specifications did not include any alternates or allowances. Bernards Bros. Construction was awarded a construction contract in the amount of \$22,495,000 on June 25, 2001.

During our review, we also noted the following:

- The Abstract of Bids was appropriately completed and signed.
- Bernards Bros. furnished an appropriate Payment and Performance Bond in the original contract amount as required.
- Bernards Bros. is a California Corporation.
- The original construction period was to cover 540 calendar days.
- Liquidated damages were stated to be \$3,000 per day.
- Notice to Proceed was given on August 9, 2001, with a start date of August 13, 2001.
- Original completion was established as February 3, 2003.
- Change Order 6 granted a 21-day time extension that extended the completion date to February 24, 2003.
- Change Order 11 provided for a 4-day time recapture that amended the contractual completion date to February 20, 2003.
- Change Order 15 provided for a 7-day time recapture that amended the contractual completion date to February 13, 2003.
- Change Order 21 provided for a 14-day time recapture that amended the contractual completion date to January 30, 2003.
- The University took Beneficial Occupancy on April 1, 2003 as documented in Change Order 37, sixty-one days after the contractual completion date.
- An extension of 111 days was included in the final change order that extended the final completion date to May 21, 2003, twenty-six days less than the June 16, 2003 initial Notice of Completion. During our field work, this was discussed with the University and they have issued Change Order 43 to correct the mathematical error.
- The initial Notice of Completion was recorded as June 16, 2003, 133 days after the original completion date. However, it excluded six items that were not complete at the time.

KPMG Construction Cost Review
CSU Los Angeles – LA 162
Golden Eagle Facility – Bookstore/Dining

- The project was fully accepted on August 4, 2003. This was an additional 49 days from the initial Notice of Completion of June 16, 2003. The final Notice of Completion was not filed until March 4, 2004.

The State Fire Marshall issued the occupancy permit on April 1, 2003. Change Order 37 was appropriately issued to document the date, liability, and start of warranty.

Recommendation:

1. On future projects, the University should amend their processes to ensure that Notices of Completions are filed in a timely manner.

Campus Response:

1. The University has amended the filing process and for future projects will file Notices of Completion with the County Recorders Office rather than having Procurement and Contracts file them.

CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

For this project, the "List of Proposed Subcontractors" (CM Form 701.04) and the "Expanded List of Subcontractors" (CM Form 701.04 A) identified twenty-five separate work divisions.

Bernards Bros. Construction requested that the basement concrete wall and colored slabs be provided by Superior Gunitite and Sullivan Concrete Textures, respectively, rather than the structural concrete subcontractor. The University appropriately approved this substitution.

As part of the bid process review, Bernard Bros. provided supporting bid documentation that KPMG requested for six trades. We found the bid practices utilized on the project to be appropriate and in conformance with industry standards. The following bids were examined in detail:

- **Glass & Glazing:** Seven bids were received ranging from \$344,559 to \$1,443,000. Six of the bids received were competitive. The low bidder, Sherrin Glass & Metal Inc., was issued a subcontract in the amount of \$364,493, including bond costs.
- **Lath/Plaster/Drywall:** Three responsive bids were received ranging from \$2,412,000 to \$3,139,860. A subcontract was issued to the low bidder, Sierra Lathing Company, in the amount of \$2,496,752, including bond costs and an alternate bid item.
- **Painting:** Five bids were received, ranging from \$195,000 to \$334,000. Nick Pecoraro Painting, the low bidder, was issued a subcontract in the amount of \$195,000.
- **HVAC:** Eight bids were received ranging from \$2,448,000 to \$2,750,000. Sheldon Mechanical Corporation, the low bidder, was issued a subcontract in the amount of \$2,410,000, including minor scope reductions.
- **Electrical:** Two bids were received for \$2,745,000 and \$2,940,000. The low bidder, Sage Electric Company, was issued a subcontract in the amount of \$2,745,000.
- **Resilient Flooring & Carpet:** Two bids were received for \$93,140 and \$99,998. The low bidder, Lawrence W. Rosine Co., was issued a subcontract in the amount of \$93,140.

Recommendation:

None

CONSTRUCTION CHANGE ORDERS

Forty-three project Change Orders totaling \$2,110,107 were incorporated into the project based on more than 230 individual Change Proposals (CP's). At the time of our review, the University was in the process of executing the final change order to cover a minor clerical error in the number of days the construction completion date was to be extended. The changes increased the original contract amount of \$22,495,000 by 9.38%.

The majority of the changes were attributable to A/E Errors and Omissions representing 7.12% of the construction cost, which is outside the industry standard of 2% to 3%. During our fieldwork, the University prepared an analysis of the Errors and Omission change orders as suggested in SUAM Section 9236. The revised Errors and Omission change orders were 3.13% when considering 20% of the omissions and 100% of the error changes or \$30,216 more than an acceptable range of 3%.

On March 4, 2004, the University issued a memorandum to the Chancellor's Office stating that they believed that it was in the best interest of the Trustees not to pursue recovery from Hammel Green and Abrahamson for errors and omissions. The original project was estimated at \$18,000,000 and the lowest bid received was \$22,495,000. The architect's contract was based on the fee grid of \$18,000,000. Based on a 7% fee grid basis, this equates to a design fee savings of approximately \$300,000. Further the Architect volunteered to evaluate and prepare designs for possible value engineering items at no cost to the University. The value engineering items resulted in an approximate \$280,000 credit to construction costs.

Recommendation:

2. The University should obtain the Chancellor's Office written concurrence to not pursue recovery for Error and Omission change orders.

Campus Response:

2. The University had obtained verbal concurrence from the Chancellor's Office to not pursue recovery from the Architect. The University has updated its procedure and on future projects will obtain CO concurrence when it decides not to pursue recovery from Architects for Error and Omission change orders.

As part of our review process, we sampled change orders and traced subcontractor estimates to the actual subcontractor change orders. Bernard Bros. furnished a "Subcontract Status Report" that reflected each subcontract and the change orders issued against them. KPMG reviewed approximately 58% of the total change orders. KPMG found Bernard Bros. records to be industry-standard and we were able to trace all but four subcontractor quotes/backup included with the University change orders to the applicable subcontract change orders.

**KPMG Construction Cost Review
 CSU Los Angeles – LA 162
 Golden Eagle Facility – Bookstore/Dining**

On Change Order 11, the University paid \$12,772 on behalf of Weichmann Concrete. Bernard Bros. paid Weichmann \$7,769, a difference of \$5,003. On Change Order 16, the University paid \$24,344 on behalf of Du Charme Door Corp. Bernard Bros. paid Du Charme \$21,437, a difference of \$2,907. On Change Orders 25 and 29, KPMG was unable to locate the subcontract change orders for Bali Construction, Inc. and Fidelity Plumbing in the amounts of \$13,317 and \$31,464, respectively. Subsequent to our review, we requested explanations and reconciliation for these items. As of the date of this report, Bernard Bros. has not responded. The four discrepancies are as follows:

Subcontractor	Owner CO #	CP#	FI #	Amount	Notes
Weichmann Concrete	11	50	17	12,772	Subcontractor CO 8 was issued in the amount of \$7,769 to Weichman - Difference of \$5,003
Du Charme Door Corp.	16	106	129	24,344	Subcontractor CO 16 was issued in the amount of \$21,437 to Du Charme -Difference of \$2,907
Bali Construction, Inc.	25	9	8	13,317	Could not locate Subcontract CO amount
Fidelity Plumbing	29	206	234	31,464	Could not locate Subcontract CO amount

Subsequent to our review and request for explanations, Bernard Bros. responded and adequately explained the variances.

Labor Fringe & Burden

From our sample of detailed change orders, Bernard Bros. self-performed less than 5% of the work with subcontractors performing over 95% of the work. As a result, 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 initiating source of each Change Order. The following table summarizes that report:

Type of Change	C.O. Totals	% of CO	% of Contract
4.1 Errors/Omissions from the Contract Documents	\$ 1,600,894	75.87%	7.12%
4.2 Unforeseeable job site conditions	238,982	11.33%	1.06%
4.3 Regulatory agency, bldg. code, safety, health	115,382	5.47%	0.51%
4.4 Originated by the University	142,012	6.73%	0.63%
4.5 Unavailability of specified materials	12,837	0.61%	0.06%
4.6 Other	0	0.00%	0.00%
Total Change Orders	\$2,110,107	100.00%	9.38%
Original Contract Amount	22,495,000		
Total	\$24,605,107		

**KPMG Construction Cost Review
CSU Los Angeles – LA 162
Golden Eagle Facility – Bookstore/Dining**

Recommendation:

None

**KPMG Construction Cost Review
 CSU Los Angeles – LA 162
 Golden Eagle Facility – Bookstore/Dining**

PROJECT MANAGEMENT/INSPECTION SERVICES

The University provided in-house project management and some inspection services for the project, supplemented by Twining Laboratories providing additional detailed inspection services.

CSULA Management JOB TITLE	FY 1999 Total	FY 2000 Total	FY 2001 Total	FY 2002 Total	FY 2003 Total	FY 2004 Total	Total
Project manager	\$ -	\$ -	\$ 28,000	\$ 66,500	\$ 50,000	\$ -	\$ 144,500
Project manager	-	6,650	13,000	13,000	10,000	-	42,650
Project manager	6,650	6,650	6,650	6,650	-	-	26,600
P&C Assistant	1,000	1,000	1,000	1,000	1,000	-	5,000
						Total	\$ 218,750
Twining Laboratories (1)							141,131
TOTAL PM/IOR COST						Total	\$ 359,881
(1) Excludes testing and special inspection							

Total fees paid for in-house project management and inspection services totaled \$359,881 or 1.46% of total construction costs, which is below industry standards of 2.5% to 3.5%.

Recommendation:

3. On future projects, the University should hire inspection services separately from testing firms as now suggested in SUAM 9785.

Campus Response:

3. The University has updated its procedure and on future projects will hire inspection services separately from testing firms.

KPMG Construction Cost Review
CSU Los Angeles – LA 162
Golden Eagle Facility – Bookstore/Dining

ACCOUNTING

As part of our work, KPMG reviewed CSULA's cost accounting reporting system and invoice processing practices. Unlike many campuses, CSULA's Planning and Construction Department includes an accounting staff position. This position was responsible for supporting the project management staff and maintaining project accounting records. P&D provided internal reports that tracked the project budget, actual expenditures, and contingency.

Recommendation:

None

**KPMG Construction Cost Review
 CSU Los Angeles – LA 162
 Golden Eagle Facility – Bookstore/Dining**

LIQUIDATED DAMAGES

The University took beneficial occupancy on April 1, 2003, as properly documented in Change Order 37. This was sixty-one days after the contractual completion date. It was the position of the University to not grant any time extension at that time in order to pressure the Contractor to complete punch list items. However, Bernards Bros. Construction indicated on ten executed change orders that they reserved their right to claim an adjustment of time. Subsequent to our fieldwork and request, the University prepared an analysis of these ten changes and an estimate of the number of days the Contractor could have cause for time extensions. Following is the result of this analysis:

CO #	Description	Estimated Delay Time
11	Add blackout @ Bookstore 2 nd Floor	2
	Revise exterior framing @ Dining building	7
14	Additional building signage	5
20	Add dishwashing station in main kitchen	2
22	Relocate sewer line @ Bookstore south side	15
23	Add tile in rooms 324 and 325	1
	Modify wiring for deep fryer unit	1
	Relocate phone jack to University Club	1
24	Repair of unforeseen water/sewer lines	2
30	Revise location of communication vaults	4
	Revise expansion joint size & type @ 2nd/3rd floor bridges	6
31	Modify site work on east side & promenade areas	12
	Add gypsum board ceiling in elevator equipment rm. 133	4
	Add enclosure around chilled water lines in stair #4	1
	Add power for climate control in Comm.rm. 171 & 174	1
	Add power for fire sprinkler flow and tamper switches	1
	Add horn strobe and smoke detector	1
	Install check valve @ north storm water manhole	1
	Add power for dishwasher	2
	Modify slab at trash compactor	1
	Add power for EF-30 in Dry Storage 335	1
32	Add retaining wall @ west side of building	2
	Remove and replace paving	8
	Additional supports for food court counter panels	1
	Add access door and relocate sprinkler test drain	1
33	Add circuitry in telecom/data rooms	9
	Total potential days	92

Recommendation:

4. For future global settlements, the University should make it a formal requirement to clearly document all delays and liquidated damages and make the settlement document part of project files.

Campus Response:

4. The University has updated its procedures and for future global settlements will formally require 1) all delays and liquidated damages be clearly documented and 2) the settlement documents be made part of project files.

We find that since the Contractor was more than likely entitled to at least ninety-two days, the University would not have been successful in attempting to assess liquidated damages for the sixty-one day delay.

The University filed a Notice of Completion on June 16, 2003, excluding painting of the building and aluminum siding, flashing, coping and sealant for Stair No. 1. There was no completion date identified for the completion of these four exclusions. When various items are excluded in the Notice of Completion and documented in a change order, it would be better practice to identify a completion date for remaining work.

Change Order 40 documented the revised completion date of June 16, 2003, and extended the contractual completion date by 111 days. This was twenty-six days short of what should have been added to correspond to the Notice of Completion date. The University corrected this twenty-six day shortage and documented final completion as August 4, 2003, in Change Order 43 and extended the completion date by an additional forty-nine days to correspond to actual project acceptance. Subsequent to our field work, the University provided the executed copy of Change Order 43.

Recommendation:

5. On future projects, when certain work remains incomplete at the time the Notice of Completion is filed and is documented in a change order, the University should identify a completion date for remaining work.

Campus Response:

5. The University has updated its procedures and will for future projects identify a completion date for remaining work when certain work remains incomplete at the time the Notice of Completion is filed and is documented in a change order.

**KPMG Construction Cost Review
CSU Los Angeles – LA 162
Golden Eagle Facility – Bookstore/Dining**

MAJOR EQUIPMENT REVIEW

The initial review of Contract Documents and Specification was performed at the University.

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:

Division #	Brand	Model #	Description
15450	Lochinvar	CFN0501 PM	Copper Fin II Gas Water Heater
15450	A.O. Smith	DEN-52D	Electric Water Heater
15450	Therm-X-trol	ST-60V	Expansion Tank
15450	Weil	3314	Submersible 2" Sump Pump
15450	Bell & Gossett	Series 100	SLC-30 Red Fox Booster Pump
15540	Paco Pumps	11-20121	Centrifugal Pump 2" x 2.5"
15850	Energy Labs Inc.	C10692-FCH-L	Air Handling Unit
16170	General Electric	DER-40291	Breakmaster Load Interrupter Switch
16425	General Electric	Spectra Series	Switchboard

Recommendation:

None



CALIFORNIA STATE UNIVERSITY, LOS ANGELES

OFFICE OF THE PRESIDENT

September 24, 2004

Mr. Larry Mandel, University Auditor
Office of the University Auditor
Office of the Chancellor – The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210



Re: University's Response to Recommendations Contained in KPMG Audit Report on Construction Project Number LA 162 – California State University, Los Angeles, Golden Eagle Facility – Bookstore/Dining

Dear Mr. Mandel:

Attached are the University's responses to recommendations contained in the construction project review, *KPMG Construction Cost Review, California State University, Los Angeles – LA 162, Golden Eagle Facility – Bookstore/Dining*.

Please contact Mr. Michael Perry, Senior Internal Auditor, at (323) 343-5105 if you wish to discuss any matter contained herein.

Sincerely,

A handwritten signature in black ink, appearing to read "James M. Rosser", written over a yellow rectangular background.

James M. Rosser

President

Attachment

cc: (w/attachment)
Steven N. Garcia, Campus CFO/VPAF
Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Elvyra San Juan, Assistant Vice Chancellor, CPDC
Richard P. West, Executive Vice Chancellor and Chief Financial Officer
Michael Perry, Senior Internal Auditor

CONSTRUCTION BID PROCESS

Recommendation:

On future projects, the University should amend their processes to ensure that Notices of Completions are filed in a timely manner.

Campus Response:

The University has amended the filing process and for future projects will file Notices of Completion with the County Records Office rather than having Procurement and Contracts file them.

CONSTRUCTION CHANGE ORDERS

Recommendation:

- 2 The University should obtain the Chancellor's Office written concurrence to not pursue recovery for Error and Omission change orders.

Campus Response:

The University had obtained verbal concurrence from the Chancellor's Office to not pursue recovery from the Architect. The University has updated its procedure and on future projects will obtain CO concurrence when it decides not to pursue recovery from Architects for Error and Omission change orders.

PROJECT MANAGEMENT/INSPECTION SERVICES

Recommendation:

- 3 On future projects, the University should hire inspection services separately from testing firms as now suggested in SUAM 9785.

Campus Response:

The University has updated its procedure and on future projects will hire inspection services separately from testing firms.

LIQUIDATED DAMAGES

Recommendation:

- 4 For future global settlements, the University should make it a formal requirement to clearly document all delays and liquidated damages and make the settlement document part of project files.

Campus Response:

The University has updated its procedures and for future global settlements will formally require 1) all delays and liquidated damages be clearly documented and 2) the settlement documents be made part of project files.

Recommendation:

- 5 On future projects, when certain work remains incomplete at the time the Notice of Completion is filed and is documented in a change order, the University should identify a completion date for remaining work.

Campus Response:

The University has updated its procedures and will for future projects identify a completion date for remaining work when certain work remains incomplete at the time the Notice of Completion is filed and is documented in a change order.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 11, 2004

CHANNEL ISLANDS

CHICO

MEMORANDUM

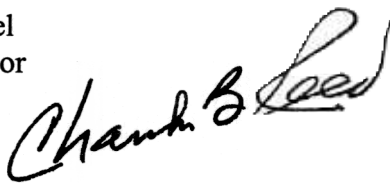
DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Golden Eagle Facility – Bookstore/Dining Project* (No. LA 162) at California State University, Los Angeles

LONG BEACH

LOS ANGELES

In response to your memorandum of October 11, 2004, I accept the response as submitted with the draft final report on the *Golden Eagle Facility – Bookstore/Dining project* at California State University, Los Angeles.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

cc: Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Dr. James M. Rosser, President
Ms. Elyvra San Juan, Assistant Vice Chancellor, CPDC
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN JUAN OBISPO

SAN MARCOS

SONOMA

STANISLAUS