

**CALIFORNIA STATE UNIVERSITY,  
SAN MARCOS**

**LIBRARY INFORMATION CENTER**

Final Report

April 26, 2004

**KPMG Construction Cost Review  
CSU San Marcos – SM1000  
Library Information Center**

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**PROJECT OVERVIEW**

KPMG was retained by the California State University's (CSU) Office of the University Auditor to perform a review of the CSU San Marcos (CSUSM) Library Information Center.

The project was one, five-story, structural steel frame building to house the Academic Library and Learning Center program. The first level and east side of the second level is buried into a hillside on campus property. The main entrance will be on level 3, with a 24-hour entrance on level 2. The design includes approximately 12,461 gross square feet of covered arcade and bridge areas used for exterior pedestrian circulation. There are two elevators that provide disabled access to the upper campus from Craven Drive and the transit center. There are three roof areas that are intended to function as occupied roof terraces.

The interior uses are as follows:

- Level 1 - Administrative Staff areas, temporary classrooms, archive storage, shipping & receiving, and mechanical areas.
- Level 2 - Media center, computer learning lab, faculty research center, video and audio recording studio classrooms, and administrative staff areas.
- Level 3 - Administrative staff areas, main lobby and entry, classroom, stacks, group study rooms, and reader areas. A separate area for food service and an associated eating terrace is also provided.
- Level 4 - Classroom, stacks, group study rooms, and reader areas.
- Level 5 - Classrooms, stacks reading room, center for study of books in Spanish, group study rooms, and reader areas.

The project also includes landscaping, architectural paving, and other site work.

During the week of October 13, 2003, KPMG reviewed project records from the following firms involved in the project's development and execution:

Contractor:	S. J. Amoroso (SJA)
Architect/Engineer (A/E):	Carrier Johnson Architects
Inspection (IOR):	Consolidated Construction Management (CCM)
Campus:	Planning Design & Construction (PDC)

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**DESIGN COSTS**

The University selected Carrier Johnson as the A/E for the Library project. An agreement was executed with Carrier Johnson for the Schematic/Preliminary design phase of the project on November 24, 1999, in the amount of \$893,640 and reimbursable expenditures to not-to-exceed \$1,360. As funding was approved, the working drawing, bidding, and construction administration phases were subsequently added through amendments. The A/E fees were appropriately based on the CSU fee grid with a budget amount of \$33,844,000. At the time of our review, the University was holding four Carrier Johnson invoices totaling approximately \$80,558 pending the settlement of error and omission issues. Subsequent to our fieldwork, the University was able to settle with Carrier Johnson. The University furnished significant documentation to support their negotiations. With the approval of legal counsel, the University received \$66,960 as the final settlement from Carrier Johnson. CSUSM is in the process of issuing a contract amendment that reduces Carrier Johnson’s agreement by this amount and will then process the outstanding invoices.

The University authorized five additional services to Carrier Johnson’s agreement. We found that extra service authorization letters appropriately approved the additional services. The following is an analysis of the basic contract and extra services:

Date	Number	Description	Approved	Amt. Paid	Bal. Open
24-Nov-99	Original Agreement	Schematic	514,520	514,520	-
24-Nov-99	Original Agreement	Preliminary	379,120	379,120	-
	Added	Working Drawings	1,034,185	1,034,185	-
	Added	Bidding	108,862	108,862	-
	Amendment 1	Construction Administration	671,313	590,755	80,558
<b>Total</b>	<b>Basic Services</b>		<b>2,708,000</b>	<b>2,627,442</b>	<b>80,558</b>
27-Sep-00	Extra Service #1	Space Planning - 1st floor	8,000	8,000	-
8-Feb-01	Extra Service #2	Site Enlargement Design	3,980		
8-Feb-01	Extra Service #2	Utility Tunnel Extension	4,620		
8-Feb-01	Extra Service #2	Terrace Windscreen	5,590		
8-Feb-01	Extra Service #2	Equipment Planning	9,900	23,986	105
16-Apr-01	Extra Service #3	Smoke Detector System	2,500	2,500	-
17-May-01	Extra Service #4	Reading Room Plaster	5,000	5,000	-
20-Sep-02	Extra Service #5	Guideline Spec Food Services/Café	5,000	4,965	35
<b>Total</b>	<b>Extras</b>		<b>44,590</b>	<b>44,450</b>	<b>140</b>
<b>Total</b>	<b>A/E Agreement</b>		<b>2,752,590</b>	<b>2,671,893</b>	<b>80,697</b>

When the University determined that the not-to-exceed prices were not invoiced to the maximum, the campus appropriately disencumbered remaining funds and issued a deductive change to Carrier Johnson that closed out the amendments.

***Recommendation:***

None

## **CONSTRUCTION BID PROCESS**

The final project estimate provided by the A/E was \$33,800,000. The original bid date was established as May 9, 2001, which, through three addendums, was changed to June 6, 2001.

Prior to bid, five Addendums were issued as follows:

- Addendum #1:* Issued April 18, 2001 – Miscellaneous specification changes and drawing clarifications.
- Addendum #2:* Issued May 2, 2001 – Extended the bid date to May 23, 2001, clarified drawings, and revised certain sections of the Project Specifications Manual.
- Addendum #3:* Issued May 15, 2001 – Changed the bid date to May 31, 2001, clarified drawings, and revised certain sections of the Project Specifications Manual.
- Addendum #4:* Issued May 24, 2001 – Changed the bid date to June 6, 2001, clarified drawings, and revised certain sections of the Project Specifications Manual.
- Addendum #5:* Issued May 30, 2001 – Miscellaneous specification changes and drawing clarifications.

The initial specifications listed six deductive alternates and one additive alternate. The alternates are as follows:

- |                                   |                                     |
|-----------------------------------|-------------------------------------|
| <b>Deductive Bid Alternate 1:</b> | Arcade and Terrace paving deletion  |
| <b>Deductive Bid Alternate 2:</b> | Reading room finishes deletion      |
| <b>Deductive Bid Alternate 3:</b> | Interior finish modifications       |
| <b>Deductive Bid Alternate 4:</b> | Building system modifications       |
| <b>Deductive Bid Alternate 5:</b> | Site paving and landscape deletions |
| <b>Deductive Bid Alternate 6:</b> | Exterior wall finish modifications  |
| <b>Additive Bid Alternate 1:</b>  | Glazing system revisions            |

The construction documents also provided for three allowances as follows:

1. Road/street repair as described in Specification Section 01210 - \$30,000
2. Security System work described in Specification Section 01210 - \$170,000.
3. Wayfinding and directional signage - \$175,000.

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The three allowances were properly reconciled in Change Order 27 and Change Order 58.

***Recommendation:***

None

There were six construction bidders listed on the Abstract of Bids. Solpak Inc., dba Soltek Pacific (Solpak) was the apparent low bidder at \$32,550,000. However, after a thorough review, CSUSM considered the bid to be non-responsive in two areas. Solpak was noncompliant with the Disabled Veteran Business Enterprise requirement and a listed subcontractor did not meet a contract specification requirement. CSUSM then selected the second low bidder, S. J. Amoroso. The University executed the construction agreement on June 28, 2001, in the amount of \$34,318,000, which included Amoroso's base bid and deductive alternates 1 and 2.

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed.
- S. J. Amoroso furnished the appropriate Payment and Performance Bonds in the original contract amount as required.
- S. J. Amoroso is a California Corporation.
- The original construction period covered 660 calendar days.
- Liquidated damages were stated to be \$4,000 per day.
- Notice to Proceed was issued on July 18th, with a start date of July 25, 2001.
- Original completion was established as May 15, 2003.
- One time extension was granted during project construction in Change Order 11 that extended the completion date sixty-nine days to July 23, 2003.
- Subsequent to our review, the University documented Beneficial Occupancy in Change Order No. 57 as December 26, 2003, 156 days beyond the contractual date of completion. As of late January 2004, the Contractor had not signed the Change Order.
- At the time of our review, and as of the date of this report, Notice of Completion had not been executed and the project was still not fully accepted by the University.

***Recommendation:***

None

## **CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES**

The "List of Proposed Subcontractors" (CM Form 701.04) identified twenty-two trade divisions and corresponding subcontractors. The "Expanded List of Subcontractors" (CM Form 701.04 A) identified the same trade divisions. Saddlebrook Waterproofing's subcontract in the amount \$187,000 was not listed on either list as required, as the contract amount exceeded ½ of 1% of Amoroso's contract amount.

### ***Recommendation:***

1. The University should determine if subcontracting practices were compromised and whether or not it is appropriate to assess penalties to Amoroso.

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

1. We concur. The campus determined that SJA's subcontracting practices were not compromised and will confirm this determination in "global" Change Order No. 63, to be provided by July 26, 2004.

As part of the bid process review, Amoroso 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:

- **Drywall:** Four bids were received ranging from \$3,702,860 to \$4,054,000. A subcontract was issued to the low bidder, Standard Drywall, Inc., in the amount of \$3,702,860.
- **Glass and Glazing:** Three bids were received ranging from \$935,000 to \$2,498,000. However, the low bid of \$935,000 did not include glazing. As such, a subcontract was issued to, La Mesa Glass, Inc., in the amount of \$1,538,168 (\$1,545,000 minus \$6,832 for a deductive alternate).
- **Flooring:** Four bids were received in amounts between \$352,300 and \$398,000, exclusive of alternates. The low bidder, Dupont Flooring, was issued a subcontract in the amount of \$347,731 (\$352,300 minus \$4,569 for a deductive alternate).
- **Electrical:** Nine bids were received in amount ranging from \$3,383,000 to \$6,876,000, exclusive of alternates. Amoroso issued the subcontract to Morrow Meadows Corporation in the amount of \$3,347,649 (\$3,383,000 minus \$35,351 for deductive alternates).
- **Mechanical (HVAC):** Ten bids were received that ranged from \$2,753,000 to \$4,773,360. The low bidder, Able Heating & Air Conditioning, received a subcontract in the amount of \$2,753,000.

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- **Mechanical (Site Utilities and Plumbing):** Five bids were received ranging from \$114,000 to \$679,000. Some of the bids received did not include both Site Utilities and Plumbing. Davis Mechanical Systems bid for \$650,000 was the lowest that included both Site Utilities and Plumbing and they were issued a subcontract in that amount.

***Recommendation:***

None

## **CONSTRUCTION CHANGE ORDERS**

Over 700 Change Order Requests (CORs) were incorporated into fifty-eight change orders at the time of our review. Changes totaled \$2,020,157, adding 5.89% to the original contract amount of \$34,318,000. Approximately 50% of the change orders were attributable to Errors/Omissions (E/O) and represented approximately 3% of the contract amount. At the time of our review, the University was in the process of pursuing recovery for E/O changes for the A/E's failure to include seismic peer review requirements into the contract documents. This resulted in significant changes to the contract documents and effected numerous changes to the project. Specifically, the following are a direct result of this Error/Omission:

<b>CO</b>	<b>CRB</b>	<b>Description</b>	<b>Amount</b>
11	4	Moreley Construction, Pacific Coast Steel, Willis Construction, Amoroso overhead	196,859
15	4	McMahon Steel (except detailing)	36,232
15	14	McMahon Steel reductions incl. detailing	(47,567)
15	4	Advance for steel detailing	31,250
20	4	Final Amoroso, McMahon Steel 16 COR's	<u>111,957</u>
<b>Total</b>			<b>328,731</b>

Subsequent to our fieldwork, the University was able to settle with Carrier Johnson. The University furnished significant documentation to support their negotiations. With the approval of legal counsel, the University received \$66,960 as the final settlement from Carrier Johnson. CSUSM is in the process of issuing a contract amendment that reduces Carrier Johnson's agreement by this amount. The University will then process the \$80,558 in unpaid invoices previously discussed under the "Design Costs" section of this report and the credit of \$66,960. From all documentation reviewed, KMPG is of the opinion that the University's negotiations were in the best interest of CSU.

### ***Recommendation:***

2. On future projects, CSUSM should implement a procedure that ensures significant peer review recommendations/suggestions are included in contract documents prior to bid.

***Campus Response:***

2. We concur. The campus will comply with this measure by revising the Campus' Design Procedures Manual to include requirement that the structural peer reviewer "stamp" their approval indicating that all changes had been incorporated into the contract documents prior to bid. This will be completed by June 30, 2004.

The campus initiated the structural peer review process for this project, tracked the comments coming from the peer reviewer to the architect and understood that the architect and project structural engineer had incorporated the comments into the bid documents. It was not until after the project bid that the architect revealed they had not incorporated these comments. Because this was an obvious omission on the part of the architect and structural engineer, the campus negotiated a financial settlement for this item with the architect, and received approval by Office of General Counsel for this settlement. We will provide documentation containing the details of the settlement by July 26, 2004.

As part of our review process we sampled change orders and traced subcontractor estimates to the actual subcontractor change orders. S. J. Amoroso furnished all subcontractor files and provided a "Commitment Change Order Status Report" that reflected each subcontract and change orders issued against them. KPMG reviewed approximately 60% of the total changes.

KPMG found that in most cases, S. J. Amoroso's records were accurate and we were able to trace sampled subcontractor quotes/backup included with University change orders to the applicable subcontract change orders. Change Order No. 4 (COR 204) included a quote from J/K Excavation for work in the NW area of the project in the amount of \$46,792. Amoroso issued J/K Excavation a change order for this work in the amount of \$9,213. When questioned, Amoroso explained that the initial estimate included in the Owner's backup was based on unit prices included in the contract. If unit pricing was utilized and the discrepancy is the quantity, the University could be entitled to a credit in the amount of \$37,579 plus Amoroso mark-up.

***Recommendation:***

3. The University should follow-up with Amoroso to determine if they were overcharged and pursue recovery.

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***Campus Response:***

3. We concur. The campus determined that it was not overcharged for J/K Excavation’s work in CO No. 4 and will confirm this determination in “global” Change Order No. 63, to be provided by July 26, 2004.

S. J. Amoroso included minimal labor costs on change orders. Excluding the compensable time extension for general conditions included in CO 11, less than 1.5% of labor costs were charged on the change orders included in our sample.

**Change Order Report Analysis**

PDC (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	\$1,009,015	49.95%	2.94%
4.2 Unforeseeable job site conditions	284,663	14.09%	0.83%
4.3 Regulatory agency, bldg. code, safety, health	38,756	1.92%	0.11%
4.4 Originated by the University	627,853	31.08%	1.83%
4.5 Unavailability of specified materials		0.00%	0.00%
Issued after fieldwork	59,870	2.96%	0.17%
<b>Total Change Orders</b>	<b>\$2,020,157</b>	<b>100.00%</b>	<b>5.89%</b>
Original Contract Amount	34,318,000		
<b>Total</b>	<b>\$36,338,157</b>		

***Recommendation:***

None

**PROJECT MANAGEMENT/INSPECTION SERVICES**

CSUSM issued a Request for Qualifications (RFQ) to provide construction management (CM), inspection, and testing services. The RFQ included specific information such as project description, scope, proposal requirements, the selection process and scoring criteria. CSUSM received forty-eight requests for the RFQ and received ten responses on the November 6, 2000, submission deadline. A selection committee consisted of representatives from Facility Services, Planning, Design and Construction, a representative from the campus' current CM provider, and representation from the Chancellor's Office. The committee selected four firms to interview.

Consolidated CM was rated the most qualified firm and was selected to provide CM services. Initially, a Constructability Review service agreement was executed January 10, 2001, in the amount of \$25,000. The University executed a "full service" Construction Management (CM) agreement in the amount of \$1,045,956 on March 1, 2001. The contract was later amended by two additional service authorizations dated April 4, 2001, and September 14, 2001, in the amounts of \$3,500 and 22,200, respectively. At the time of our review CCM had not fully invoiced the campus, as the project was not fully completed. A recap of total costs to date follows:

<b>Consolidated CM</b>	<b>Date</b>	<b>Approved</b>	<b>Paid</b>	<b>Balance</b>
Contract (Constructability)	10-Jan-01	25,000	24,048	952
Extra Service	1-Mar-01	3,500	3,380	120
Basic Service Contract	4-Apr-01	1,045,956	1,012,077	33,879
Extra Service - Expenses	14-Sep-01	22,200	3,850	18,350
<b>Totals</b>		<b>1,096,656</b>	<b>1,043,355</b>	<b>53,301</b>

***Recommendation:***

- Once the project is closed-out and it is determined that the not-to-exceed service agreement amounts are not billed to the maximum, the University should disencumber any unused funds and a deductive change should be issued to CCM to close out the agreements and extra services. (Guidelines relating to this issue have been added to SUAM. Refer to Section 9786.03.)

***Campus Response:***

- We concur. The audit was performed prior to the completion of the project; therefore the agreement was still open. The campus does have a process to disencumber funds when a contract is completed; The Notice of Contract Completion for this contract will serve as evidence and be provided by July 26, 2004.

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The University included testing in the CCM contract a practice that does not conform with SUAM Section 9785 guidelines. Additionally CCM was paid a 10% mark-up on the testing firm's costs. The mark-up equated to an additional \$15,959 for testing costs. On past construction reviews, CSU has not allowed mark-ups on CCM's consultants or reimbursable expenses however; the CCM agreement did not preclude them from charging the 10% mark-up.

***Recommendations:***

5. On future projects, CSUSM should contract for testing independently of the CM firm.
6. CSUSM should ensure that future service agreements prohibit the allowance of mark-up on expenses.

***Campus Responses:***

5. We concur. The campus has released an RFP for testing on the Business Building project that will be managed independent from the CM firm. The campus construction manual will be revised to comply with this recommendation. The manual revision will be completed by June 30, 2004.
6. We concur. The recommendation will result in a revision to the campus construction manual to be completed by June 30, 2004.

Total management costs in the amount of \$1,043,355, represented 2.86% of the total construction cost in the amount of \$36,431,987, which is within the industry average of 2.5% to 3.5%.

***Recommendation:***

None

## **LIQUIDATED DAMAGES**

The original completion date was established as May 15, 2003. The campus provided a 69-day time extension on Change Order 11 to allow for structural changes in order to meet seismic review requirements.

The University took Beneficial Occupancy on December 26, 2003. This is 156 days after the July 23, 2003, completion date, which equates to \$624,000 in liquidated damages. As of the date of this report, the University has not filed a Notice of Completion since the project is still not fully accepted due to remaining punch list items.

During our review and subsequent to our field work, the University provided a number of letters documenting Amoroso's failure to complete the punch list work necessary to warrant full acceptance of the project. In reading the letters, it is clear that the University questions the contractor's staffing and diligence in completing final work. Significant issues were addressed in the following two letters:

- **September 23, 2003** - SJA revised a promised completion date of September 8, 2003, to October 1, 2003. The University had offered a non-compensable time extension from July 23, 2003 to September 8, 2003, which SJA would not accept. CSUSM also indicated any delay beyond October 1, 2003, would only be mitigated by the assessment of liquidated damages.
- **February 6, 2004** - CSUSM threatened SJA with a Public Contracts Code Section 10843 action; however, the letter did not seem to carry out the true intent of the code. The University gave SJA five days to "prepare a plan indicating how each remaining item on the punch list will be completed within a reasonable time."<sup>1</sup> The code states that... "After written notice of at least five days to the contractor, specifying the defaults to be remedied, provide any such labor or materials and deduct the cost from any money due or to become due to the contractor under the contract..." This would allow the University to complete the remaining work with another contractor.

The University decided to continue with Amoroso since they had completed 87% of the punch list items and there was a concern that additional delays would be incurred if a new contractor was hired. However, by delaying the project due to punch list items and the inability to record a Notice of Completion, the University may risk a claim for compensable time extensions from the Contractor in hopes to offset any liquidated damages the University attempts to assess. Additionally, the delay continues to extend the deadline for the filing of Stop Notices.

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<sup>1</sup> The letter also went on to note that the Contractor would only be allowed to work in public spaces outside of normal Library operating hours.

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Because the project close-out process has become so contentious, the University's should use all appropriate means available to compel Amoroso to complete all of the current outstanding punch list items.

The University should have been more aggressive in pursuing project completion prior to February 2004. Once the project is accepted, the University should consider filing a claim for liquidated damages, since final completion is well beyond the contractual completion date of July 23, 2003.

***Recommendations:***

7. A warning letter should have been issued in September when the revised completion date was not met, and formal 10843 action executed when the later promised October date was not met. For future projects, the University should develop a guideline that outlines a process to carry out a Public Contract Code 10843 notice under Article 7.03 of the Contract General Conditions so that the campus is able to complete unfinished work and successfully close out projects when contractors fail to expedite project work.
8. The University should document any global settlements once the project is fully accepted. The documentation should include any offsets to liquidated damages and should be made part of the project's records.
9. CPDC (Chancellor's Office) should expand SUAM Section 9826 to provide guidelines that address reasonable timeframes for contractors to complete a project closeout process and for the completion of punch list work.

***Campus Responses:***

7. We concur. The campus will comply per SUAM 9826 *Failure to Prosecute Work (Failure to Perform)* and include this section in the campus construction manual by June 20, 2004.
8. We concur. The campus will comply per SUAM 9820.03 *Milestone, Occupancy or Global Settlement Change Orders* and include this section in the campus construction manual by June 30, 2004.

***Management Response:***

9. We agree. CPDC continually addresses project closeout, but until now, has not included this specific process in SUAM. CPDC has modified SUAM and our procedures, to further address project closeout timeframes and process.

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**MAJOR EQUIPMENT REVIEW**

The initial review of Contract Documents and Specifications was performed at the University. KPMG was furnished a submittal log from which we selected our sample. 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 a representative from campus personnel in order to verify that specified and approved equipment had been provided and installed by S. J. Amoroso.

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

Div. #	Brand	Model #	Description
02668	Mueller Co	A-20806	Adjustable Indicator Post
10522	Larsen's	VC4016-RL	Fire Extinguisher Cabinets
15415	Sunroc	SRF-7200	Dual Height Water Cooler
15487	Taco	PAX130	Expansion Tanks
15487	Taco	G06205-TAD	Tank Heating Unit
15487	Taco	EM 2535T	Chill Water Pump Motor
16620	Kohler	250REOZD	Emergency Generator System

***Recommendation:***

None

## **ACCOUNTING**

KPMG conducted a review of the University's cost accounting reporting system and invoice processing practices. The reporting system is maintained in Planning Design & Construction independently of the accounting and procurement departments, requiring PDC to enter all invoice information in spreadsheets - even though the University accounting department also enters all invoices into the central accounting system. CSUSM does regularly reconcile budget and expenditures to the financial accounting system.

KPMG found that PDC's project cost accounting methodologies accurately and comprehensively tracks all project commitments, encumbrances and expenditures.

***Recommendation:***

None



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## MEMORANDUM

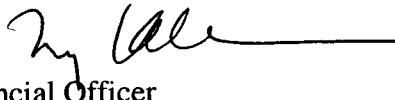
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JUN - 2 2004

THE CALIFORNIA STATE  
UNIVERSITY

DATE: May 26, 2004

TO: Larry Mandel  
University Auditor  
The California State University

FROM: Terry L. Allison   
Interim Vice President and Chief Financial Officer  
Finance and Administrative Services  
California State University San Marcos

SUBJECT: Campus Responses to Audit Report  
KPMG Audit Report on Construction Project Number SM1000-CSU  
San Marcos, Library Information Center

Attached for your consideration and acceptance are campus responses to the recommendations of KPMG Audit Report on Construction Project Number SM1000-CSU San Marcos, Library Information Center.

Please contact Barbara Dovenbarger, Director of Internal Audit, if we can be of further assistance. She may be reached by email at [dove@csusm.edu](mailto:dove@csusm.edu) or by phone at (760) 750-4955.

Attachments

TLA:kjh

cc: President Karen S. Haynes

## **CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES**

### ***Recommendation:***

The University should determine if subcontracting practices were compromised and whether or not it is appropriate to assess penalties to Amoroso.

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

We concur. The campus determined that SJA's subcontracting practices were not compromised and will confirm this determination in "global" Change Order No. 63, to be provided by July 26, 2004.

## **CONSTRUCTION CHANGE ORDERS**

### ***Recommendations:***

- 2 On future projects, CSUSM should implement a procedure that ensures significant peer review recommendations/suggestions are included in contract documents prior to bid.
- 3 The University should follow-up with Amoroso to determine if they were overcharged and pursue recovery.

### ***Campus Responses:***

2. We concur. The campus will comply with this measure by revising the Campus' Design Procedures Manual to include requirement that the structural peer reviewer "stamp" their approval indicating that all changes had been incorporated into the contract documents prior to bid. This will be completed by June 30, 2004.

The campus initiated the structural peer review process for this project, tracked the comments coming from the peer reviewer to the architect and understood that the architect and project structural engineer had incorporated the comments into the bid documents. It was not until after the project bid that the architect revealed they had not incorporated these comments. Because this was an obvious omission on the part of the architect and structural engineer, the campus negotiated a financial settlement for this item with the architect, and received approval by Office of General Counsel for this settlement. We will provide documentation containing the details of the settlement by July 26, 2004.

- 3 We concur. The campus determined that it was not overcharged for J/K Excavation's work in CO No. 4 and will confirm this determination in "global" Change Order No. 63, to be provided by July 26, 2004.

## **PROJECT MANAGEMENT/INSPECTION SERVICES**

### ***Recommendations:***

- 4 Once the project is closed-out and it is determined that the not-to-exceed service agreement amounts are not billed to the maximum, the University should disencumber any unused funds and a deductive change should be issued to CCM to close out the agreements and extra services. (Guidelines relating to this issue have been added to SUAM. Refer to Section 9786.03.)
- 5 On future projects, CSUSM should contract for testing independently of the CM firm.
- 6 CSUSM should ensure that future service agreements prohibit the allowance of mark-up on expenses.

### ***Campus Responses:***

4. We concur. The audit was performed prior to the completion of the project; therefore the agreement was still open. The campus does have a process to disencumber funds when a contract is completed; The Notice of Contract Completion for this contract will serve as evidence and be provided by July 26, 2004.
5. We concur. The campus has released an RFP for testing on the Business Building project that will be managed independent from the CM firm. The campus construction manual will be revised to comply with this recommendation. The manual revision will be completed by June 30, 2004.
6. We concur. The recommendation will result in a revision to the campus construction manual to be completed by June 30, 2004.

## **LIQUIDATED DAMAGES**

### ***Recommendations:***

7. A warning letter should have been issued in September when the revised completion date was not met, and formal 10843 action executed when the later promised October date was not met. For future projects, the University should develop a guideline that outlines a process to carry out a Public Contract Code 10843 notice under Article 7.03 of the Contract General Conditions so that the campus is able to complete unfinished work and successfully close out projects when contractors fail to expedite project work.
8. The University should document any global settlements once the project is fully accepted. The documentation should include any offsets to liquidated damages and should be made part of the project's records.
9. CPDC (Chancellor's Office) should expand SUAM Section 9826 to provide guidelines that address reasonable timeframes for contractors to complete a project closeout process and for the completion of the punch list work.

### ***Campus Responses:***

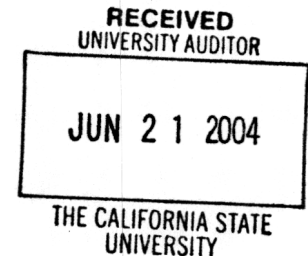
7. We concur. The campus will comply per SUAM 9826 *Failure to Prosecute Work (Failure to Perform)* and include this section in the campus construction manual by June 20, 2004.
8. We concur. The campus will comply per SUAM 9820.03 *Milestone, Occupancy or Global Settlement Change Orders* and include this section in the campus construction manual by June 30, 2004.
9. This item is the responsibility of CPDC.

# Memorandum

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

**Date:** June 18, 2004

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



**Subject:** **Audit Report**  
Library Information Center, Project No. SM1000  
California State University, San Marcos

I am pleased that the overall theme of this audit report continues in a positive vein and that it finds general compliance with established procedures. I have reviewed the report's findings with my Capital Planning, Design and Construction (CPDC) staff, and our specific comments to the auditors' findings and recommendations are on the attached pages.

RPW:JRC:bn

Attachments

cc: Ms. Elvyra F. San Juan  
Mr. Larry Piper  
Mr. Thomas M. Kennedy  
Mr. James R. Corsar

**LIQUIDATED DAMAGES**

***Recommendation:***

9. CPDC (Chancellor's Office) should expand SUAM Section 9826 to provide guidelines that address reasonable timeframes for contractors to complete a project closeout process and for the completion of punch list work.

***Management Response:***

9. We agree. CPDC continually addresses project closeout, but until now, has not included this specific process in SUAM. CPDC has modified SUAM and our procedures, to further address project closeout timeframes and process.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 13, 2004

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILL

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Library Information Center* Project  
(No. SM1000) at California State University, San Marcos

LONG BEACH

In response to your memorandum of August 13, 2004, I accept the response as submitted with the draft final report on the *Library Information Center* project at California State University, San Marcos.

LOS ANGELES

MARITIME ACADEMY

CBR/amd

MONTEREY BAY

Enclosure

NORTHRIDGE

POMONA

cc: Mr. Terry L. Allison, Interim Vice President and Chief Financial Officer,  
Finance and Administrative Services

SACRAMENTO

Dr. Karen S. Haynes, President

SAN BERNARDINO

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services

SAN DIEGO

Ms. Elyvra San Juan, Assistant Vice Chancellor, CPDC

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

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS