

**CALIFORNIA STATE UNIVERSITY,  
SAN MARCOS**

**ACADEMIC HALL BUILDING 13 (BUSINESS BUILDING)**

Final Report

September 6, 2006

**CONSTRUCTION PROJECT EVALUATION**  
**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**  
**ACADEMIC HALL BUILDING 13 (BUSINESS BUILDING)**

September 6, 2006

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*This report and all associated analysis contained herein are based upon information made available to KPMG LLP. KPMG LLP is not responsible for incomplete or inaccurate information provided during the preparation of this report. This report only presents and summarizes factual data and does not represent an opinion or attestation to the position, approach or representation of information made by any other party involved with this evaluation.*

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# CONTENTS

Executive Summary .....	3
Summary of Findings .....	3
Introduction .....	4
Purpose .....	4
Scope .....	4
Methodology .....	5
Exclusions .....	5
Project Background .....	6
Delivery Methodology .....	6
Timeline .....	6
Project Costs .....	7
Design Costs .....	8
Construction Bid Process .....	12
Subcontractor Substitution.....	12
Construction Change Orders .....	14
Change Order Report Analysis.....	16
Project Management Inspection Services .....	17
Major Equipment / Materials Review .....	19
Close-Out Process .....	20
Liquidated Damages .....	21
Accounting .....	22

# EXECUTIVE SUMMARY

## Summary of Findings

Based upon our evaluation, the Academic Hall Building 13 (Business Building) at CSUSM was administered consistent with our expectations of a project of this size, scope and complexity, except for minor areas in construction administration process that could be improved. We did not find any significant control or process weaknesses that would expose CSUSM to major unnecessary risks, but we did uncover some minor discrepancies and control issues that should be addressed.

Our observations, associated risks and recommendations are summarized below. Examples of specific action steps are further detailed in the body of this report.

	<b>Observation</b>	<b>Risk</b>	<b>Recommendation</b>
1.	Services for construction documents and working drawings were invoiced ahead of the contractual payment schedule.	Payments to vendors ahead of the contractual billing schedule may result in financial losses to CSUSM if subsequent vendor performance is unsatisfactory.	In the future, payment should occur according to the contractual payment schedule.  (Ownership: CSU San Marcos)
2.	Extra Service Agreements (“ESA’s”) were not counter signed by the architect and the CSU standard Extra Services Agreement Form was not utilized.	Lack of consultant counter signatures on ESA’s may limit the enforceability of the agreed to scope of work.	In the future, CSUSM should obtain counter signatures related to scope and fees on every ESA executed and the standard ESA form should be utilized. CPDC should revise SUAM to reflect appropriate requirements.  (Ownership: CSUSM and CPDC)
3.	On one occasion, design services were performed prior to the formal execution of an ESA agreement. The corresponding invoice was paid seven months late.	Work performed without an executed ESA may lead to discrepancies in cost tracking and uncertainties over scope of work.	In the future, work should commence only after an ESA has been formally executed and invoices should be tracked against said ESA.  (Ownership: CSUSM)
4.	It appears time extensions were not consistently negotiated on a contemporaneous basis as they occurred. If a legitimate business reason for the delay in granting extra days was established, it was not evident from the change order support.	Late resolution of time extensions may impact CSUSM’s ability to reach a favorable agreement with the contractor toward the end of the Project and is not a better practice.	On future Projects, CSUSM should follow SUAM and attempt prompt resolution of time extensions as delays occur. Any departures from timely resolution of time extensions for strategic reasons should be fully documented and included with the change order support.  (Ownership: CSUSM)
5.	Construction management services were performed in excess of the contracted amount. An ESA was issued subsequent to the services being performed and invoiced.	There is a risk of overpayment and/or budget overruns if consultant work is performed and invoiced outside a normal contractual agreement such as an ESA.	On future Projects, CSUSM should monitor costs nearing the end of a not to exceed contract and be proactive in issuing additional ESA’s, prior to work being performed by the consultant, if warranted.  (Ownership: CSUSM)

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## **INTRODUCTION**

### **Purpose**

KPMG LLP (“KPMG”) was retained by California State University’s (“CSU”) Office of the University Auditor on October 29, 2004 to perform an independent project evaluation of California State University, San Marcos’s (“CSUSM”) Academic Hall Building 13 (Business Building) (“the Project”).

The overall objective of the construction evaluation was to assess construction management practices for the Project and to substantiate that it was managed in accordance with law, Trustee policy, generally accepted business practices, and industry standards.

To the extent they were uncovered as part of our work, this report provides conclusions and recommendations addressing necessary recovery of project costs and process improvements. Recommendations are listed and numbered sequentially throughout this report.

### **Scope**

While the basic scope of our work matches that required by the RFP and that which KPMG has performed in years past, we also included items we believe will provide value to CSU. KPMG identified specific areas within the scope listed below that present the greatest potential for substantive loss or liability for the Project. The various scope categories are outlined in CSU’s Request for Proposal, dated July 14, 2004 and KPMG’s proposal, dated July 27, 2004 and contains the following sections:

- Project Background
- Design Cost
- Construction Bid Process
- Construction Change Orders
- Project Management Inspection Services
- Major Equipment/Materials
- Close-Out Documentation
- Liquidated Damages
- Accounting

## Methodology

KPMG’s approach to this engagement incorporates a work plan shared with the University Auditor’s office as outlined in our agreement with CSU. During the course of our work we expanded on tasks related to scope sections with the greatest potential risk exposure. The work performed by KPMG was conducted in accordance with our aforementioned methodology, but is not limited to, the following tasks:

- Examine financial records, reports, written CSU procedures, CSU contract documents and other material related to the Project and compare current practices and procedures with CSU requirements and standard industry practice;
- Conduct a preliminary review to determine project emphasis;
- Interview key individuals involved in the Project;
- Identify significant deficiencies, if any;
- Recommend changes that may result in streamlining the design/construction process, assuring adequate project controls and reducing costs; and
- Prepare a written report of our findings and recommendations.

## Exclusions

The services, fees and delivery schedule for this engagement are based upon the following assumptions, representations or information supplied by CSU (“Assumptions”).

1. KPMG is not responsible for and will not make management decisions relating to this Project or any other aspect of CSU’s business. CSU shall have responsibility for making all decisions with respect to the management and administration of its real estate and capital projects.
2. CSU management accepts responsibility for the substantive outcomes of this engagement and, therefore, has a responsibility to be in a position in fact and appearance to make an informed judgment on the results of this engagement.
3. Our work under this engagement did not include technical opinions related to engineering, operations and maintenance.
4. KPMG’s work under this engagement did not include a review, audit or evaluation of financial statements, tax services, or other services of KPMG not listed in this Statement.
5. We have, and will continue to consider the effect of this engagement on the ongoing, planned and future audits, as required by *Government Auditing Standards* and have determined that this engagement will not impair KPMG’s independence.

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## PROJECT BACKGROUND

The California State University, San Marcos Academic Hall Building 13 (Business Building) Project (“the Project”) was designed as a four story structural steel frame building for the College of Business Administration including classrooms, faculty offices, and support spaces totaling approximately 80,000 gross square feet. In addition to the main building, the Project also included a utility tunnel, a service road, landscaping, architectural paving and other site work.

During the week of May 8, 2006 KPMG conducted field work at CSUSM. During field work KPMG reviewed project records from the following entities involved with the Project:

Architect	A.C. Martin Partners
General Contractor	C.E. Wylie Construction Company
Construction Management and Inspection Services	O’Connor Construction Management, Inc.
Project Management and Administration	CSUSM Department of Planning, Design and Construction

Follow-up discussions to clarify issues and supplement supporting documentation were conducted through the completion of this report.

### Delivery Methodology

The Project was delivered using a design-bid-build, lump sum contract delivery methodology.

### Timeline

The design process began on November 6, 2002 with the effective date of an agreement with A.C. Martin Partners (“A.C. Martin”). Schematic design was completed in January 2003 and construction documents were completed in February 2004. The construction work was bid in March 2004 with the construction work awarded to C.E. Wylie Construction Company (“C.E. Wylie”). A construction contract was entered into effective May 4, 2004. Construction began with the Notice to Proceed on May 22, 2004 and continued through beneficial occupancy on March 9, 2006 with the issuance of Certificate of Occupancy. Notice of Completion had not yet been executed at the time of KPMG’s field work.

## Project Costs

This Project was made possible by an economic stimulus package proposed by the Governor on January 2, 2002 as part of a public works spending effort. The package was subsequently approved by legislature and provided \$26,526,000 for the design and construction of the Project using lease revenue bond funding. Additional funds were secured to augment an increase in construction cost and group II (movable) equipment bringing the total Board of Trustees approved budget for the Project to \$28,391,000, as summarized in the following table:

<b>Description</b>	<b>Budget</b>	<b>Additional Funding</b>	<b>Total Budget</b>
Construction	\$ 19,749,000	\$ 751,000	\$ 20,500,000
Architect and Engineering	1,248,000	-	1,248,000
Contract Management	1,382,000	-	1,382,000
Contingency	987,000	-	987,000
CPDC	-	-	-
Required Additional Services	849,000	-	849,000
Group II Equipment	2,311,000	1,114,000	3,425,000
<b>Total</b>	<b>\$ 26,526,000</b>	<b>\$ 1,114,000</b>	<b>\$ 28,391,000</b>

At the time of our field work, there were \$28,174,331 in approved commitments on the Project and a total amount paid to date of \$25,097,216, which leaves \$3,293,786 left to pay. Comparing the actual commitments to the available funding, it appears this Project will finish below budget by \$216,669 as summarized below:

<b>Description</b>	<b>Total Commitment</b>	<b>Actual Paid</b>	<b>Variance (Budget-Paid)</b>	<b>Variance (Budget-Commitment)</b>
Construction	\$ 21,708,407	\$ 19,400,108	\$ 1,099,892	\$ (1,208,407)
Architect and Engineering	1,448,323	1,381,800	(133,800)	(200,323)
Contract Management	758,033	747,721	634,279	623,967
Contingency	-	-	987,000	987,000
CPDC	-	310,486	(310,486)	-
Required Additional Services	824,568	738,106	110,894	24,432
Group II Equipment	3,435,000	2,518,994	906,006	(10,000)
<b>Total</b>	<b>\$ 28,174,331</b>	<b>\$ 25,097,215</b>	<b>\$ 3,293,786</b>	<b>\$ 216,669</b>

## DESIGN COSTS

A.C. Martin was retained through a competitive selection process to perform architectural and engineering services for the Project. A standard CSU architectural/engineering agreement was formally executed effective November 6, 2002 although it was not formally executed by signature of counsel until December 16, 2002. The total contract was \$1,418,513; however, only design development costs in the amount of \$462,000 were initially encumbered. Eleven Extra Service Agreements (“ESA’s”) in the aggregate amount of \$47,941 brought the total value of the agreement to \$1,466,454. The design amounts are summarized in the table below.

Description	Date	Amount
Schematic Design	11/6/2002	\$ 268,548
Preliminary	11/6/2002	193,452
Construction Documents	11/6/2002	541,523
Bidding	11/6/2002	56,537
Construction Phase	11/6/2002	309,396
As-Builts	11/6/2002	49,057
<b>Total Base Contract Value</b>		<b>\$ 1,418,513</b>
ESA #2 - Surveying	9/11/2003	5,850
ESA #4 - Revisions for Emergency Power	11/14/2003	13,500
ESA #5 - Preliminary Plans, Parking Lot Study	1/8/2004	3,449
ESA #5A - Landscape Soils Testing	1/26/2004	833
ESA #6 - Geotechnical Trenches	3/8/2004	6,500
ESA #7 - Revise Dry Stand-Pipe System	2/8/2005	1,900
ESA #8 - Restroom Mirrors	3/7/2005	960
ESA #9 - Change Furniture Lay-out	5/12/2003	3,700
ESA #10 - Misc. Additional Services	5/2/2005	6,500
ESA #11 - Redesign Lighting	7/29/2005	3,400
ESA #12 - Misc. Additional Services	8/29/2005	1,350
<b>Subtotal ESA's</b>		<b>\$ 47,941</b>
<b>Total</b>		<b>\$ 1,466,454</b>

KPMG noted an inconsistent numbering of ESA’s. ESA #1 related to an initial feasibility study performed by A.C. Martin and was not related to this agreement. ESA #3 was apparently omitted and never issued. ESA #5 had inadvertently been issued twice and as a result, one ESA was changed to # 5A when the discrepancy was discovered. The inconsistent numbering of ESA’s did not result in any difficulties reconciling the various contract amounts as CSUSM kept detailed records and spreadsheets of the various commitments, including corresponding funding sources.

Both Rider A and Exhibit B of the architect’s agreement contain the fee amounts for the various phases of the agreement. KPMG noticed up to a 2% (\$28,167) difference between the percentages and costs listed in Rider A compared to those presented in Exhibit B. Although the variances between the two references sources in the Agreement, Rider A and Exhibit B, were not significant and did not result in overbilling, it is a better practice to included consistent information through-out the contract documents.

The differences between Rider A and Exhibit B are presented in the following table:

Phase	Rider A %	Rider A Cost	Exhibit B %	Exhibit B Cost	Cost Variance
Schematic Design	20.00%	\$ 283,703	19.00%	\$ 268,548	\$ (15,155)
Preliminary	14.00%	198,592	13.70%	193,452	(5,140)
Construction Documents	38.00%	539,035	38.30%	541,523	2,488
Bidding	2.00%	28,370	4.00%	56,537	28,167
Construction Phase	26.00%	\$ 368,813	25.00%	358,453	(10,360)
<b>Total Base Agreement</b>	<b>100.00%</b>	<b>\$ 1,418,513</b>	<b>100.00%</b>	<b>\$ 1,418,513</b>	<b>\$ -</b>

Exhibit B of the architect's agreement specifies construction documents and working drawings in the amount of \$541,523 are to be billed at 50% and 100% completion. These fees were actually invoiced and paid at 25%, 50%, 95% and 100% completion. While no overpayment occurred in aggregate, premature payment prior to completion of a design milestone may not be the best use of CSUSM funds. In addition, this is not in accordance with the contractual payment terms.

***Observation:***

Services for construction documents and working drawings were invoiced ahead of the contractual payment schedule.

***Risk:***

Payments to vendors ahead of the contractual billing schedule may result in financial losses to CSUSM if subsequent vendor performance is unsatisfactory.

***Recommendation:***

1. In the future, payment should occur according to the contractual payment schedule.

(Ownership: CSUSM)

***Campus Response:***

1. We concur. On future projects, payments to architects and other vendors will be made in accordance with the contractual payment terms. All payments are now tracked to insure that no phase of payments will exceed its contracted limit. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed by March 31, 2007.

Estimated Completion Date: March 31, 2007

The architect additional services were executed as ESA's on CSUSM letterhead. The standard CSU ESA form was not utilized. The ESA's were not countersigned by the architect, although a cost proposal from the architect or correspondence indicating agreement to the scope of work were usually attached to the ESA letter. The quotes were consistent with the amounts agreed to in the ESA's. Although SUAM 9210.03 does not require the architect's counter signature on ESA, obtaining the architect's counter signature is a standard practice which would minimize any later disagreements over scope or cost. Without a counter signature from the architect indicating consent, CSUSM may be left unprotected in the event of a dispute.

***Observation:***

ESA's were not counter signed by the architect and CSU standard ESA form was not utilized.

***Risk:***

Lack of consultant counter signatures on ESA's may limit the enforceability of the scope of work.

***Recommendation:***

2. In the future, CSUSM should obtain counter signatures related to scope and fees on every ESA executed and the standard ESA form should be utilized. CPDC should revise SUAM to reflect appropriate requirements.

(Ownership: CSUSM and CPDC)

***Campus Response:***

2. We concur. On future projects, the campus will obtain counter signatures related to scope and fees on every ESA executed utilizing the standard ESA form. Implementation of this finding began following the audit visit. The campus will consult with CPDC on the process for obtaining counter signatures on the standard ESA form and develop a procedure that will be added to the revised Project Management Plan scheduled to be completed by March 31, 2007.

Estimated Completion Date: March 31, 2007

***Management Response:***

2. We agree. The extra services authorization procedure was modified and posted on the CPDC web site (SUAM X, Section 9210.03, and sample letter with designer signature block in Appendix C).

A.C. Martin issued an invoice on March 19, 2003 in the amount of \$3,449 for parking lot related design work. CSUSM neglected to pay this invoice until November 20, 2003. An ESA to fund these services was issued by CSUSM on January 8, 2004, subsequent to the payment. CSUSM acknowledged confusion surrounding this particular invoice due to the work being related to parking and as a result, funding was needed from CSUSM Parking Services. Despite the late payment and an apparent late issuance of an ESA, this was an isolated incident and involved an amount which was not significant. However, the timely payment of invoices and issuance of ESA's prior to work being performed are of utmost importance in the accounts payable and cost control processes.

***Observation:***

On one occasion, design services were performed prior to the formal execution of an ESA agreement. The corresponding invoice was paid seven months late.

***Risk:***

Work performed without an executed ESA may lead to discrepancies in cost tracking and uncertainties over scope of work.

***Recommendation:***

3. In the future, work should commence only after an ESA has been formally executed and invoices should be tracked against said ESA.

(Ownership: CSUSM)

***Campus Response:***

3. We concur. On future projects, all ESAs will be formally executed prior to commencement of work and approval of invoices for payment against the ESAs. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed by March 31, 2007.

Estimated Completion Date: March 31, 2007

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## **CONSTRUCTION BID PROCESS**

The construction bid process for this Project was administered through CSUSM Procurement and Support Services Office, which advertised the solicitation in February, 2004. The bid package, plans and specifications for the Project were made available to all bidders on February 23, 2004. The solicitation required each bidder to be pre-qualified with CSU, which CSUSM provided documentation in support of. A pre-bid meeting walk-through was held for the Project on March 1, 2004 with all responding bidders represented.

A total of five addendums were issued between March 9, 2004 and March 24, 2004, adding new prevailing wage rate information, revising the contract general conditions, amending specifications and drawings and changing the bid due date. The bids were opened on April 1, 2004 as revised by addendum number 3. Five pre-qualified contractors submitted bids for the Project. These companies include Soltek Pacific, S.J. Amoroso Construction Co, Inc., C.E. Wylie Construction Co., Douglas E. Barnhart, Inc., Swinerton Builders, and Highland Partnership, Inc.

The engineer's estimate for the Project was \$19,749,000. C.E. Wylie Construction was the lowest responsive and responsible bidder with a base bid of \$20,500,000, which was \$147,000 lower than the closest competitor. C.E. Wylie submitted a complete bid package containing all required information and also submitted the required additional materials upon notification of award. CSUSM elected to award the Project to C.E. Wylie since the deficit over the engineer's estimate was within ten percent. An augmentation of construction funds was approved accordingly by the Public Works Board on April 28, 2004.

KPMG reviewed CSUSM's bid files and bid process and found the Project in compliance with requirements related to pre-bid meeting, advertising for bids, distribution of project plans and specifications, review of bid proposal package, issuing of addenda during bidding, pre-qualification of bidders, obtaining required documentation from the successful bidder.

### ***Recommendation:***

None

### **Subcontractor Substitution**

KPMG identified three instances of subcontractor substitution for the Project:

- KI Company was substituted for Ainslie Company to perform institutional casework, due to Ainslie Company's inability to accept C.E. Wylie's contract.
- Horizon Painting was substituted for Hallmark Painting, Inc. to perform painting services, due to Hallmark Painting's bid withdrawal.

- David Mechanical Systems was substituted for Able Heating & Air Conditioning to perform wet side piping HVAC work due to Able Heating & Air Conditioning's bid withdrawal.

All three substitutions were granted in conformance with SUAM and Public Contract Code Section 4107(a) without exception.

***Recommendation:***

None

## CONSTRUCTION CHANGE ORDERS

A total of 30 change orders were executed to C.E. Wylie's at the time of KPMG's field work in the amount of \$1,386,445 increasing the total contractual obligation to \$21,886,445. There was one additional change order in process in the amount of \$13,182, pending execution.

Description	Date	Amount
CO 1 - Completion ate of August 22, 2004	5/26/2004	\$ -
CO 2 - Acceptance of Bid Alternate "D"	6/10/2004	265,000
CO 3 - Acceptance of Bid Alternates "A" and "E"	7/19/2004	161,000
CO 4 - Acceptance of Bid Alternates "B" and "C"	9/15/2004	188,000
CO 5 - Excavation of unsuitable soil, relocate utilities	9/15/2004	49,427
CO 6 - Reroute storm drain, excavate check valve	11/16/2004	18,125
CO 7 - Relocate duct bank	12/29/2004	25,963
CO 8 - Revise lighting, air handlers	2/28/2005	86,193
CO 9 - Adjust sanitary sewer	3/21/2005	38,431
CO 10 - Revise power locations	4/27/2005	32,417
CO 11 - Miscellaneous revisions	5/25/2005	5,711
CO 12 - Add footings, revise acoustical panels	6/17/2005	20,725
CO 13 - A 40 kVA UPS System	7/1/2005	72,908
CO 14 - Miscellaneous revisions	7/11/2005	4,805
CO 15 - Revise parking lot, power and telecom	8/22/2005	77,427
CO 16 - Provide additional electrical rough-in	8/31/2005	25,936
CO 17 - Additional data outlets, structural support	10/19/2005	29,958
CO 18 - CMU enclosures for emergency generator	11/3/2005	35,266
CO 19 - Ornamental gates, additional conduit	11/7/2005	8,545
CO 20 - FACP components, south roof	11/30/2005	20,419
CO 21 - Revise hardware schedule, chilled water system	12/30/2005	52,627
CO 22 - Beneficial occupancy	2/8/2006	-
CO 23 - Site demolition, power supplies	2/15/2006	15,589
CO 24 - Import soil for landscaping, increase paver base	2/24/2006	12,752
CO 25 - Misc. owner revisions	3/1/2006	15,334
CO 26 - Additional FA devices, roof beacon	3/22/2006	36,345
CO 27 - Add smoke detectors, field survey	3/22/2006	41,814
CO 28 - Sealant overlay, replace GWB	3/27/2006	18,894
CO 29 - Relocate doors, misc. revisions	4/5/2006	26,834
CO 30 - Add 95 days to schedule, time extended to 3/20/06	4/4/2006	-
<b>Total Change Orders</b>		<b>\$ 1,386,445</b>

CSUSM followed the established signature authority for approval of the change orders.

The contract General Conditions specify how mark-up is to be calculated on the various portions and types of change order work. KPMG sampled ten change order line items, each comprised of individual change proposals, and recalculated the mark-up based on the cost support submitted by C.E. Wylie an include with the change order documentation. The total value of the ten tested change order line items included was \$304,733 for which KPMG calculated a variance of less than one percent, which is not significant.

A total of 118 days were added to the contract through the change order process, however, 95 of these days were added on change order 30 at the end of the Project. SUAM section 9792.01 describes the responsibilities of the construction administrator during the construction phase and specifically provides guidance on contemporaneous resolution of contract time extensions. CSUSM provided explanation for the time extensions including delays caused by both C.E. Wylie and CSUSM. In order to retain leverage over C.E. Wylie for final resolution of costs, no change order days were granted past change order 18. The final resolution of contract time overrun was not fully documented in change order 30, as required by SUAM 9820.

***Observation:***

It appears time extensions were not consistently negotiated on a contemporaneous basis as they occurred. If a legitimate business reason for the delay in granting extra days was established, it was not evident from the change order support.

***Risk:***

Late resolution of time extensions may impact CSUSM's ability to reach a favorable agreement with the contractor toward the end of the Project and is not always a better industry practice.

***Recommendation:***

4. On future Projects, CSUSM should follow SUAM and attempt prompt resolution of time extensions as delays occur. Any departures from timely resolution of time extensions for strategic reasons should be fully documented and included with the change order support.

(Ownership: CSUSM)

***Campus Response:***

4. We concur. On future projects, the campus will attempt prompt resolution of time extensions as delays occur. In the event it is in the best interest of the University to delay resolution, all time extensions will be fully documented and included in the project file. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed by March 31, 2007.

Estimated Completion Date: March 31, 2007

**Change Order Report Analysis**

CSU has historically considered change order costs incurred due to errors and omissions by the architect of up to 3% of the initial award construction cost as falling within the architect’s ‘standard of care’. However, the agreement as executed did not contain any language related to ‘standard of care’. The agreement stated the architect/engineer shall secure and maintain appropriate errors and omissions insurance of no less than \$2,000,000 per claim and annual aggregate.

CSUF provided a change order log reflecting the source of each change order. Based on the information available, change orders attributable to architect’s errors and omissions exceeded 20% of the total net change order costs. These errors and omissions are calculated to be 1.37% of the original contract amount which is less than the 3% that fall under the CSU’s acceptable levels of ‘standard of care’. The total dollar amount attributable to errors and omissions is \$280,237.

The following table summarizes this information:

Class	Type of change	Amount	% of Total CO	% of Original Contract
4.1	Error in or omission from the contract documents	\$ 280,237	20.02%	1.37%
4.2	Unforeseeable job site condition	113,346	8.10%	0.55%
4.2	Change in the requirements of a regulatory agency	9,234	0.66%	0.05%
4.4	Change originated by the University	996,810	71.22%	4.86%
4.5	Changes in specified work due to the unavailability of specified materials	-	0.00%	0.00%
4.6	Other	-	0.00%	0.00%
Blank		-	0.00%	0.00%
<b>Total Change Orders</b>		<b>\$ 1,399,627</b>	<b>100.00%</b>	<b>6.83%</b>
Original Contract Amount		20,500,000		
<b>Total</b>		<b>\$ 21,899,627</b>		

**Recommendation:**

None

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## **PROJECT MANAGEMENT INSPECTION SERVICES**

O'Connor Construction Management, Inc. ("O'Connor") was retained on June 24, 2004 to provide construction management and inspection services for the Project. A standard CSU consultant agreement in an amount not to exceed \$674,835 was executed. One ESA in the amount of \$32,000 was issued to extend work for an extra month due to rain delays and to perform testing on a curtain wall system. This ESA increased the total contracted amount to a not to exceed amount of \$706,835. The total amount paid for services to O'Connor at the time of KPMG's field work was \$427,920.

The description of the scope of work in the agreements and subsequent invoices from O'Connor clearly identified the services performed. O'Connor submitted adequate support for the timekeeping charges, invoices contained proper signature authority and were captured accurately by CSUSM in the accounting system. No instances of overbillings were discovered, however, an underbilling occurred between January and April 2005, which was corrected on the June 2005 invoice without exception.

Although the one ESA for the contract was formally executed on March 27, 2006, an invoice in the amount of \$17,953 for the services was presented by O'Connor on February 28, 2006. Attached to the invoice was a letter from O'Connor dated February 23, 2006 explaining that the duration of the 18 month duration of the base contract had passed and as a result of weather delays and CSUSM's desire to keep O'Connor on the Project, additional costs had been incurred and CSUSM was being invoice accordingly. As a result of this invoice and attached letter, CSUSM processed ESA #1 retroactively.

### ***Observation:***

Construction management services were performed in excess of the contracted amount. An ESA was issued subsequent to the services being performed and invoiced.

### ***Risk:***

There is a risk of overpayment and/or budget overruns if consultant work is performed and invoiced outside a normal contractual agreement such as an ESA.

### ***Recommendation:***

5. On future Projects, CSUSM should monitor costs nearing the end of a not to exceed contract and be proactive in issuing additional ESA's, prior to work being performed by the consultant, if warranted.

(Ownership: CSUSM)

***Campus Response:***

5. We concur. On future projects, the campus will monitor costs nearing the end of a not to exceed contract and will be proactive in issuing additional ESAs by authorizing extensions to work being performed by the consultant as appropriate. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed by March 31, 2007.

Estimated Completion Date: March 31, 2007

## MAJOR EQUIPMENT/MATERIALS REVIEW

KPMG selected and reviewed a sample of the materials and equipment used on the Project. These items were selected partially based upon easily available access to the equipment and materials as this Project was a functional facility at the time of KPMG's field work.

CSUSM allowed full and complete access to drawings, specifications, samples and submittals which were organized, easy to locate and contained sufficient information. The equipment was verified in the field against performance specifications, submittals, and drawings available.

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

Division	Drawing No.	Brand	Model No./ Capacity	Description
16470	E-801	GE - A Series	Catalog no. AEF3424BBX 480Y/277V 3PH 4W 400 amp	13L3A Panel Board
16460	n/a	GE	ULK factor transformer / 9T23Q9565G83A / 75 KVA 60hz 3ph	T-13P4A Transformer
15900	n/a	Siemens	APOGEE Automation	HVAC Instrumentation and Controls
15726	M-006, EP-205N	Pace: York International	YC-87X95 / 17555 CFM	Rooftop Air Handling Unit AHU-4
15726	M-006, EP-205N	Pace: York International	YC-100x114 / 26990 CFM	Rooftop Air Handling Unit AHU-5
15185	M-006	Armstrong Super E	VeJmm 3151TI / 2HP 208 230/460 V	CHU Pump 5
15000	M-0006	Greenheck	SWB-224 -50-CW-UB-X cfm	Exhasut Fan, EF - 1
14420	n/a	Access Industries Porch Lift	Toe Guard Model (TG) / 750#9-12 fpm	Wheelchair Lifts
14240	VT01	Mitsubishi	3500# Class A Loading 125 FPM	Roped Hydraulic Elevators Cars 1 & 2
09680	n/a	Atlas Carpet Mills, Inc.	Berwick, DuPont Antron Legacy nylon	Carpet, BK15 Moonscape
08911	n/a	Certified Enameling, Inc.	UC51568XL	Glazed Aluminum Curtain Walls, Champagne Gold
07411	n/a	Centria	SRS 2-1.5	Manufactured Roof Panels, Duranar champagne gold

The equipment and materials observed in the field conformed to the specifications above, based on a visual inspection of equipment labeling, and comparison to samples provided.

### ***Recommendation:***

None

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## **CLOSE-OUT PROCESS**

The Project was not fully closed out at the time of KPMG's field work. Change order number 31 in the amount of \$13,182 was pending execution and the Notice of Completion had not yet been filed. However, much of the relevant close-out related documentation had been collected and was readily available for review.

The CSUSM close-out files were maintained in an organized fashion and included various indexes and logs of the items retained in the files, including the recommended standard CSU close-out check list. Of the close-out items KPMG was able verify based upon requirements established by the contract General Conditions and SUAM, KPMG reviewed the not yet fully signed Notice of Completion, the Certificate of Occupancy, punch list, operating permits, operation and maintenance manuals, warranties, as-built drawings, inspections, and other relevant project close out documentation without exception.

***Recommendation:***

None

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## **LIQUIDATED DAMAGES**

This Project was initially contracted for final completion by November 22, 2005. Change orders extended the contracted completion date to March 9, 2006 which is the date the Certificate of Occupancy was issued. As of the date of KPMG's field work, the Notice of Completion had not yet been issued.

Due to the extension of time granted to complete the Project, full daily liquidated damages in the amount of \$4,000 per day, as specified by the contract, are not warranted. However, Section 7.02 of the General Conditions allows for the amount of liquidated damages to be reduced by half once CSUSM has occupancy of the building. Using this strict interpretation of the contract, the CSUSM has the option of charging \$2,000 per day from March 9, 2006 until the Notice of Completion is issued. In discussions with CSUSM, it was explain that it is not the intention of CSUSM to impose any liquidated damages as delays on the Project were in part due to numerous factors beyond the C.E. Wylie's control such as weather and actions by CSUSM. In addition, CSUSM has not suffered any losses by the delay and was able to take beneficial occupancy as planned.

***Recommendation:***

None

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## **ACCOUNTING**

KPMG reviewed the accounting process for the Project with CSUSM, including approval of invoices, the accounts payable process, authorization and recording of contracts and change orders, and reconciliation of invoices and payments to the general ledger.

CSUSM's Department of Planning, Design and Construction tracked contractual obligations and expenditures for certain contractors and consultants directly involved with the construction in excel format. This is a common practice among CSU campuses and could be an effective tool as long as all such excel accounting entries are reflective of the actual transactions posted into the main accounting system. KPMG reviewed the excel spreadsheet and supporting documentation, which demonstrated that reconciliation between the excel spreadsheet and the main accounting system occurred. KPMG's testing of the underlying documentation did not reveal any discrepancies.

***Recommendation:***

None



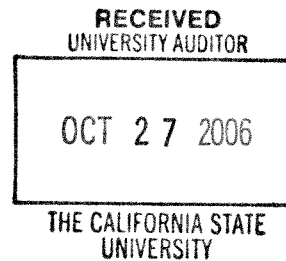
*"Becoming Nationally Recognized Leaders in Higher Ed Administration"*

*Neal R. Hoss  
Vice President,  
Finance & Administrative Services*

*California State University San Marcos  
San Marcos, California 92096-0001 USA  
Tel: 760 750-4950; Fax: 760 750-4949  
nhoss@csusm.edu  
[www.csusm.edu](http://www.csusm.edu)*

October 27, 2006

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



Subject: Campus Responses to Recommendations: KPMG Audit Report on the Academic Hall Building 13 (Business Building) Construction Project, California State University, San Marcos

Dear Mr. Mandel:

Enclosed is our response to the recommendations in the KPMG Audit Report on the Academic Hall Building 13 (Business Building) Construction Project. Upon acceptance of our response, we will follow up with your office in providing supporting documentation for each recommendation by the anticipated completion dates.

Please let us know if you have any questions or need additional information.

Sincerely,

Neal R. Hoss  
Vice President  
Finance and Administrative Services

Enclosure

cc: President Karen S. Haynes  
Mr. Gary Cinnamon, Associate Vice President, Facilities Development and Management  
Mr. Russell Decker, Director, Planning, Design and Construction  
Ms. Linda Hawk, Associate Vice President for Resource Management

**The California State University**

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay  
• Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • San Luis Obispo • San Marcos • Sonoma • Stanislaus

**CONSTRUCTION PROJECT EVALUATION**  
**CALIFORNIA STATE UNIVERSITY SAN MARCOS**  
**ACADEMIC HALL BUILDING 13 (BUSINESS BUILDING)**

**DESIGN COSTS**

*Recommendations:*

1. In the future, payment should occur according to the contractual payment schedule.  
  
(Ownership: CSUSM)
2. In the future, CSUSM should obtain counter signatures related to scope and fees on every ESA executed and the standard ESA form should be utilized. CPDC should revise SUAM to reflect appropriate requirements.  
  
(Ownership: CSUSM and CPDC)
3. In the future, work should commence only after an ESA has been formally executed and invoices should be tracked against said ESA.  
  
(Ownership: CSUSM)

*Campus Responses:*

1. We concur. On future projects, payments to architects and other vendors will be made in accordance with the contractual payment terms. All payments are now tracked to insure that no phase of payments will exceed its contracted limit. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed in spring 2007.  
  
Estimated Completion Date: March 31, 2007
2. We concur. On future projects, the campus will obtain counter signatures related to scope and fees on every ESA executed utilizing the standard ESA form. Implementation of this finding began following the audit visit. The campus will consult with CPDC on the process for obtaining counter signatures on the standard ESA form and develop a procedure that will be added to the revised Project Management Plan scheduled to be completed in spring 2007.  
  
Estimated Completion Date: March 31, 2007
3. We concur. On future projects, all ESAs will be formally executed prior to commencement of work and approval of invoices for payment against the ESAs. In

addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed in spring 2007.

Estimated Completion Date: March 31, 2007

## **CONSTRUCTION CHANGE ORDERS**

### ***Recommendation:***

4. On future Projects, CSUSM should follow SUAM and attempt prompt resolution of time extensions as delays occur. Any departures from timely resolution of time extensions for strategic reasons should be fully documented and included with the change order support.

(Ownership: CSUSM)

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

4. We concur. On future projects, the campus will attempt prompt resolution of time extensions as delays occur. In the event it is in the best interest of the University to delay resolution, all time extensions will be fully documented and included in the project file. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed in spring 2007.

Estimated Completion Date: March 31, 2007

## **PROJECT MANAGEMENT INSPECTION SERVICES**

### ***Recommendation:***

5. On future Projects, CSUSM should monitor costs nearing the end of a not to exceed contract and be proactive in issuing additional ESA's, prior to work being performed by the consultant, if warranted.

(Ownership: CSUSM)

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

5. We concur. On future projects, the campus will monitor costs nearing the end of a not to exceed contract and will be proactive in issuing additional ESAs by authorizing extensions to work being performed by the consultant as appropriate. In addition, the campus will develop a procedure that will be added to the revised Project Management Plan scheduled to be completed in spring 2007.

Estimated Completion Date: March 31, 2007



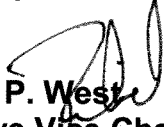
**Business and Finance**  
401 Golden Shore, 5th Floor  
Long Beach, CA 90802-4210

[www.calstate.edu](http://www.calstate.edu)

**Richard P. West**  
Executive Vice Chancellor/CFO

562-951-4600  
Fax 562-951-4970  
rwest@calstate.edu

**MEMORANDUM**

**Date:** October 26, 2006  
**To:** Larry Mandel  
University Auditor  
**From:** Richard P. West   
Executive Vice Chancellor & Chief Financial Officer  
**Subject:** Audit Report  
Academic Hall Building 13 (Business Building)  
California State University, San Marcos

RECEIVED  
UNIVERSITY AUDITOR  
OCT 27 2006  
THE CALIFORNIA 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 have attached our response to the auditors' findings and recommendation to CPDC.

RPW:JRC:bn

Attachment

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

**CSU Campuses**  
Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
East Bay

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles  
Maritime Academy

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego

San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus

**CONSTRUCTION PROJECT EVALUATION**  
**CALIFORNIA STATE UNIVERSITY SAN MARCOS**  
**ACADEMIC HALL BUILDING 13 (BUSINESS BUILDING)**

**DESIGN COSTS**

***Recommendation:***

2. In the future, CSUSM should obtain counter signatures related to scope and fees on every ESA executed and the standard ESA form should be utilized. CPDC should revise SUAM to reflect appropriate requirements.

(Ownership: CSUSM and CPDC)

***Management Response:***

2. We agree. The extra services authorization procedure was modified and posted on the CPDC web site (SUAM X, Section 9210.03, and sample letter with designer signature block in Appendix C).

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

November 28, 2006

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Academic Hall Building 13*  
(*Business Building*) Construction Project at  
California State University, San Marcos

LONG BEACH

LOS ANGELES

In response to your memorandum of November 28, 2006, I accept the response as submitted with the draft final report on the *Academic Hall Building 13 (Business Building)* construction project at California State University, San Marcos.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

cc: Ms. Erika Alvord, KPMG

SACRAMENTO

Dr. Karen S. Haynes, President, CSU San Marcos

SAN BERNARDINO

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services

SAN DIEGO

Mr. Neal R. Hoss, Vice President, Finance and Administrative Services,  
CSU San Marcos

SAN FRANCISCO

Ms. Elvyra San Juan, Assistant Vice Chancellor, CPDC

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

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS