PROJECT OVERVIEW

KPMG was retained by the California State University (CSU), Office of the University Auditor, to perform a review of the renovation, expansion, and seismic upgrade of the existing 50,000 s.f. CSU Chico Bell Memorial Union Student Center (BMU). This was the first delegated major capital outlay project performed by CSU Chico. The University administered this Student Union project on behalf of the Trustees. The BMU is a two-story, type II concrete building with a basement and two additions that were added to the south and east sections of the building. The additions consisted of a 52,000 s.f. three-story Bookstore and a 15,000 s.f. Multi-Purpose Building. The new structures are type II steel brace frame construction with cement plaster, thin brick veneer finish, with an aluminum storefront.

Other major components included the upgrade of the food services facility and creation of a food court, upgrade of the HVAC system, and construction of a new electrical substation. Estimated construction cost was $14,000,000. The construction schedule anticipated a start date of November/December, 1998, with project completion set for August/September, 2000. The project was phased to allow initial construction of the Bookstore and Multi-purpose Building followed by the renovation of the existing BMU. The existing spaces were occupied during the construction of the new Bookstore and Multi-Purpose Room. Following the completion of the new Bookstore, personnel were relocated from the existing BMU to the completed Bookstore prior to renovation work commencing in the BMU.

Between November 4 and 7, 2002, KPMG reviewed project records from the following firms involved in the project’s development and execution:

Contractor: Allen L. Bender, Inc.
Project Manager (PM)/Inspection (IOR): Consolidated CM (CCM)
Campus: Facilities Management & Services (FMS) and Procurement Services
DESIGN COSTS

Selection of the design firm occurred prior to the Bell Memorial project’s delegation to the campus. CPDC (Chancellor’s Office) selected Lionakis Beaumont Design Group as the Architect for the project.

LBDG’s contract, dated October 28, 1996, in the amount of $489,440, was based on the CSU A/E fee grid based on a project budget of $6,013,000. Subsequently, the Trustees approved major scope enhancements causing the initial design fees to be significantly understated. The final budget was $14 million that incorporated significant scope and budget changes and resulted in A/E contract amendments that appropriately revised the design fees in accordance with the CSU fee grid. Prior to the delegation of the project to the campus in October 1998, the Chancellor’s office processed LBDG’s invoices. University records contained only those invoices processed at the campus, however the University obtained copies of contractual agreements and additional services authorized by CPDC prior to delegation. We utilized campus records of CPDC payments and LBDG’s billings to include the total agreement in our analysis.

The following analysis provides a summary of basic contract services, amendments and extra services:

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Basic Services</th>
<th>Extra Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Contract (based on $6,013,000 construction budget)</td>
<td>$489,440</td>
<td></td>
</tr>
<tr>
<td>Scope/Budget adjustments authorized by CPDC</td>
<td>347,454</td>
<td></td>
</tr>
<tr>
<td>Subtotal Basic Services</td>
<td>$836,894</td>
<td></td>
</tr>
<tr>
<td>Extra Services issued by CPDC (Chancellor)</td>
<td></td>
<td>43,285</td>
</tr>
<tr>
<td>ESA 1 Acoustical</td>
<td></td>
<td>53,075</td>
</tr>
<tr>
<td>ESA 3 Theater</td>
<td></td>
<td>54,846</td>
</tr>
<tr>
<td>ESA 4 Food Service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amendments issued by the University</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amendment 1 - Bid Services</td>
<td>114,638</td>
<td></td>
</tr>
<tr>
<td>Amendment 2 - Scope increase &amp; survey</td>
<td>55,172</td>
<td>40,000</td>
</tr>
<tr>
<td>Amendment 3 - Correct CPDC calculations for scope</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amendment 4 - Administration not in original</td>
<td>271,097</td>
<td></td>
</tr>
<tr>
<td>Total Agreement</td>
<td>$1,277,801</td>
<td>$191,206</td>
</tr>
</tbody>
</table>

We were able to confirm that all phases for basic and extra services were appropriately paid, with the exception of the extra service of $40,000 included in Amendment 2. It appears that only $10,000 was paid against the $40,000 approval.
Recommendation:

1. On future projects, when additional service authorizations are issued, and it is later determined that the not-to-exceed prices are not billed to the maximum, a deductive change should be issued to close out the amendment and disencumber the allotted funds. (Guidelines related to this issue have been added to SUAM. Refer to SUAM section 9786.03 (12/01).)

Campus Response:

1. We agree with this recommendation. Our Operational Plan for Delegation of Capital Outlay Management Authority has been modified to add the position of Director of Financial Reporting and Property to carefully monitor project financial transactions, including activity on not-to-exceed agreements. This monitoring along with instructions to project managers to disencumber funds when they are no longer required for the completion of agreements will resolve this issue.

Timeline: Completed
CONSTRUCTION BID PROCESS

The final project estimate, provided by the Architect of Record, was $14,000,000. The original bid date was established as August 13, 1998.

Prior to bid, two Addendums were issued as follows:

*Addendum #1:* Issued July 28, 1998 – Revisions to bidding requirements, revisions to conditions of contract, and revisions to specifications and drawings.

*Addendum #2:* Issued August 6, 1998 – Miscellaneous changes.

Three allowances were included in the specifications to cover the costs for coordinating and paying all fees necessary for the installation of utilities, including: $50,000 for Pacific Gas & Electric; $30,000 for Cal Water; and $8,000 for Pac Bell.

The initial specifications listed two (2) Deductive Alternates as follows:

*Alternate 1:*
  a) Delete the landscaping and irrigation system except for all sleeves under paving required for the future irrigation system.
  b) Delete the roof deck walking surface and associated handrails at the third floor of the Bookstore. In its place, install roofing as specified in the Contract Documents.
  c) Delete the trellis structure at the Dining Plaza.
  d) Delete the new curved stair in the Atrium.
  e) Shell out offices A241, A240, A233, A239, 236 and 237, as indicated on the drawings.

*Alternate 2:* Delete all work associated with the BMU basement tenant improvements as indicated in the drawings.

There were two responsive bidders listed on the Abstract of Bids, with Allen L. Bender, Inc. being the apparent low bidder at $18,913,133. Allen L. Bender, Inc. was awarded the construction agreement on October 29, 1998. None of the Deductive Alternates were accepted or incorporated into the original construction contract.

Additional findings related to the project include:

- The Abstract of Bids was appropriately completed and signed.
- Allen L. Bender, Inc. furnished an appropriate Payment and Performance Bond in the original contract amount as required.
- Allen L. Bender, Inc. is a California Corporation.
- The original construction period included two Phases and covered 665 calendar days.
- Liquidated damages were stated to be $2,200 for Phase I and $2,900 for Phase II.
• Notice to Proceed was issued on December 3, with a start date of December 7, 1998.
• Original completion for Phase I was established as December 30, 1999 and October 2, 2000 for Phase II.
• Beneficial occupancy for Phase I occurred February 11, 2001 (43 days after the original completion date).
• For Phase II, Notice of Completion was recorded as October 29, 2001 (392 days after the original completion date). Beneficial occupancy occurred 303 days after the original completion date.
• There were no time extensions granted during the course of construction. However, in the global settlement negotiated as part of Change Order No. 223, 393 days were awarded to Allen L. Bender, Inc.

**Recommendation:**

None
CONTRACTOR COMPLIANCE - SUBCONTRACTING PRACTICES

The "List of Proposed Subcontractors" (CM Form 701.04) identified 23 trade divisions and subcontractors. The "Expanded List of Subcontractors" (CM Form 701.04 A) identified 21 divisions and subcontractors.

As part of the bid process review, Bender 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:

- **Roofing**: Five bids were received in amounts ranging from $209,950 to $322,866. A subcontract was issued to the low bidder, Kodiak Construction Co. for $209,950.
- **Drywall**: Six bids were received ranging from $1,742,000 to $2,369,400. After the addition of bonding costs to the low bid, a subcontract was issued in the amount of $1,768,709 to Karsyn Construction.
- **Electrical**: Five bids between $2,336,000 and $2,695,000 were received. A subcontract was issued to the low bidder, Cal Electro Inc., in the amount of $2,401,504 (inclusive of bond costs).
- **Metal Decking**: Three bids were received in amount ranging from $233,520 to $283,900. The low bidder, B. T. Mancini, was awarded a subcontract in the amount of $233,520.

Findings related to subcontractor listing requirements are:

- Two subcontractors, Kodiak and Montez Glass, were inadvertently omitted from the “Expanded List of Subcontractors.” After submission of the expanded list, Bender subsequently issued a letter dated October 27, 1998, to clarify the omission, which was accepted by the University.

- Shanks General Engineering was listed as the sitework subcontractor. However, their bid was withdrawn on October 28, 1998, because the contract award period exceeded 60 days. Allen L. Bender, Inc. appropriately submitted a letter dated December 9, 1998, indicating that they would self-perform the work.

- On December 18, 1998, Allen L. Bender, Inc. submitted a letter to Consolidated CM indicating that when the project was originally bid, they did not receive any carpet or vinyl quotations. As such, a subcontractor was not listed to perform this scope of work. The letter further requested that the University permit Bender to subcontract the work to Capital Commercial Flooring. We could not locate an approval response in campus files nor in Bender’s records. Capital Commercial’s subcontract in the amount of $362,000 exceeds ½ of 1% of Bender’s contract.
The following two subcontracts in excess of ½ of 1% were not listed:

- American Stair - $119,500
- Armour Steel - $575,000

Subcontracting for three trades (Capital Commercial Flooring, American Stair, and Armour Steel) violates Public Contract Code Section 4109 and subjects Bender to a penalty of up to 10% of the subcontract amounts. However, the following is an excerpt from the Settlement Agreement and Mutual Release between Allen L. Bender, Inc. and the CSU Board of Trustees that addresses any future claims relating to this project. Paragraph 3.7 reads “Except as specifically stated in the subparagraphs to this paragraph, the Parties hereby forever mutually release, acquit and discharge each other, as well as each others’ officers, agents, employees, attorneys, insurers, and sureties, from any and all claims, rights, demands, costs, attorney fees, damages and causes of action of every kind and nature, known or unknown, relating to the Project, including but not limited to those referenced above.” Following subparagraphs to this citing relate to latent construction defects and problems with the Variable Air Volume system. This settlement agreement may preclude the Trustees from any opportunity for monetary recovery.

**Recommendations:**

2. The University should consult with General Counsel and pursue penalty assessments to the extent possible for subcontracting violations.

3. On future projects, the University should implement procedures for monitoring the use of subcontractors as outlined in SUAM Section 9822.

**Campus Responses:**

2. The University agrees with this recommendation and we have been in contact with the Office of General Counsel to discuss this recommendation along with the specific information related to this project. A decision on whether to pursue a penalty assessment against this contractor will be made by July 31, 2003.

   **Timeline:** July 31, 2003

3. The University agrees with this recommendation. Procedures are being implemented for monitoring the use of subcontractors as outlined in SUAM Section 9822. Documentation of the procedures will be completed and included in the University procedure manual by August 31, 2003.

   **Timeline:** August 31, 2003
CONSTRUCTION CHANGE ORDERS

Two hundred twenty-three (223) Change Orders incorporating over 600 Change Order Requests (COR’s) were approved on the project. The net total equaled $4,814,466 including a $2M settlement. Exclusive of the $2M settlement, changes added 14.9% to the total contract amount. Changes due to A/E errors & omissions totaled $1,353,153, or 7.15% of the total contract amount, which is higher than the industry averages of approximately 3% to 4%.

Recommendation:

4. The University should work with CPDC (Chancellor’s Office) to determine whether to pursue compensation for change order costs due to A/E errors and omissions by applying the analysis included in SUAM Section 9236.

Campus Response:

4. The University agrees with this recommendation and has discussed the recommendation with staff at CPDC in the Chancellor’s Office. At the end of the project the University analyzed the change orders on the project classification code to determine the financial responsibility of the project architect for errors and omissions (4.1). At the same time, the University received several claims by the project architect for extra services compensation due to owner initiated changes (4.4) or delays to the project (4.2, 4.6). Considering that both the University claims and the architect’s claims had merit, and in consideration of the difficulty and expense often incurred in seeking reimbursement from an architect for excessive errors and omissions as pointed out in SUAM Section 9236--with little chance of recovery--the University proposes to enter into a settlement agreement with the architect which in essence will off-set the claims of both parties. Anticipated resolution of the settlement is by August 31, 2003.

The rating of the architect’s performance on this project in the post performance evaluation reflects the problems the University had in dealing with this firm and problems on the project that were attributable to the architect’s performance. This evaluation will be recorded by CPDC and taken into consideration when this firm is being considered to provide architectural services for any future California State University projects.

Timeline: August 31, 2003
The University was presented with a claim from Allen L. Bender, Inc. in the amount of $5,074,248. The Contractor’s Claims Review Board conducted its hearing from March 20-21, 2002, to hear seven claims alleged by the Contractor (three of these claims were from Bender’s subcontractors). The project management team, made up of University personnel, the Architect, and the Construction Manager rebutted the claims. The University presented two counterclaims; liquidated damages and additional direct costs. The Board recommended awards for portions of five of the seven Contractor claims that totaled $652,615. The Board also recommended partial awards of the University counterclaims totaling $206,676. These awards resulted in a net award to the Contractor of $445,939.

Although KPMG recognizes the CSU settlement procedures as a “good faith” effort, it is neither a binding process nor a final remedy for contractors or subcontractors. Subsequent to the Claims Review Board’s recommendation, Bender, and the subcontractors, continued to pursue litigious remedies. In September 2002, the University, through consult with CPDC (Chancellor’s Office) and the CSU Office of General Counsel, settled all outstanding claims for $2M in favor of the Contractor. This is documented in Change Order 223. We were unable to obtain specific project documents that addressed the significant variance between the Claims Review Board’s recommendation and the final settlement.

Paragraph 3.05 of the Claims Review Board Procedures for Campus- and CPDC-Administered Projects Part 1, states “Claims Review Board recommendations that are rejected by the Vice President shall be returned to the Claims Review Board for further review and reconsideration.”
Recommendation:

5. CPDC (Chancellor’s Office) should clarify the intent of the above referenced paragraph 3.05 and determine if Vice Presidents are required to have the Claims Review Board reconsider settlements that significantly deviate from the Board’s findings.

Management Response:

5. We agree. CPDC shall modify SUAM to incorporate these negotiations in the Duties of the Construction Administrator. These new guidelines shall be presented in our July 2003 training sessions.

As part of our review process, we sampled change orders and traced subcontractor estimates to the actual subcontractor change orders. Bender furnished all subcontractor files. KPMG reviewed over 60 COR’s included in approximately 30 change orders. These totaled $557,000, or 20% of all changes. KPMG found that Bender’s records were accurate and we were able to trace all sampled subcontractor quotes/backup included with the University change orders to the applicable subcontract change orders.

Labor Fringe & Burden

Allen L. Bender, Inc. included minimal labor costs on change orders. Of the $557,000 in changes reviewed, $67,000 were attributable to Contractor labor costs. Bender provided KPMG with a complete Certified Payroll Report for the entire project. Prevailing wages were charged on the base employee hours. The additional burden charged for payroll taxes, workman’s compensation insurance, state and federal unemployment ranged from 23% to 26%. This range is acceptable and represents the norm for burden.

Change Order Report Analysis

CSU Chico Facilities Management provided a Change Order Log categorizing change orders by source. The following table summarizes the report:

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>C.O. Totals</th>
<th>% of CO</th>
<th>% of Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 Errors/Omissions from the Contract Documents</td>
<td>$1,353,152.82</td>
<td>48.08%</td>
<td>7.15%</td>
</tr>
<tr>
<td>4.2 Unforeseeable job site conditions</td>
<td>$513,157.00</td>
<td>18.24%</td>
<td>2.71%</td>
</tr>
<tr>
<td>4.3 Regulatory agency, bldg. code, safety, health</td>
<td>$95,984.00</td>
<td>3.41%</td>
<td>0.51%</td>
</tr>
<tr>
<td>4.4 Originated by the University</td>
<td>$850,666.18</td>
<td>30.22%</td>
<td>4.50%</td>
</tr>
<tr>
<td>4.5 Unavailability of specified materials</td>
<td>$1,506.00</td>
<td>0.05%</td>
<td>0.01%</td>
</tr>
</tbody>
</table>
### Total Change Orders

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Change Orders</td>
<td>$2,814,466.00</td>
<td>100.00%</td>
<td>14.88%</td>
</tr>
<tr>
<td>Settlement Change No. 223</td>
<td>2,000,000.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Original Contract Amount</td>
<td>$18,913,133.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>23,727,599.00</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Recommendation:**

None
CSU Chico issued a Request for Qualifications (RFQ) to provide Project Management (PM) and Inspector of Record (IOR) services. The RFQ included project specific information as well as a request for billing rates and staffing plans, which essentially served as a formal Request for Proposals. The University utilized a point system to evaluate the responses. From the four proposals received, Consolidated CM was selected as the most qualified firm to perform on-site construction management and testing services. The inclusion of materials testing in a project management contract is somewhat unusual and, in our experience, does not conform to best business practices.

**Recommendation:**

6. Wherever practical, the University should contract testing services separately from project management firms as suggested in SUAM Section 9785.

**Campus Response:**

6. The University agrees with this recommendation and on all projects performed after the Bell Memorial Union project (Utility Infrastructure, Education Classroom, and Telecommunications Infrastructure) we have contracted separately for testing services as required by the project and in conformity with the procedures set forth in SUAM Section 9785.

**Timeline:** Completed

CCM was awarded a service agreement in the amount of $713,944 on September 30, 1998. Subsequent to the initial agreement, five additional services agreements (ESA) were authorized that added $355,844. The adjusted agreement totaled $1,069,788. The following table identifies the added services:

<table>
<thead>
<tr>
<th>Services Added</th>
<th>ESA #1</th>
<th>ESA #2</th>
<th>ESA #3</th>
<th>ESA #4</th>
<th>ESA #5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>$26,775</td>
<td>$36,265</td>
<td>$19,295</td>
<td>$4,335</td>
<td>$1,955</td>
<td>$88,625</td>
</tr>
<tr>
<td>Project Manager</td>
<td>55,463</td>
<td>4,568</td>
<td>26,680</td>
<td>8,700</td>
<td>1,740</td>
<td>97,150</td>
</tr>
<tr>
<td>IOR</td>
<td>44,370</td>
<td>9,570</td>
<td>17,168</td>
<td>6,960</td>
<td>928</td>
<td>78,996</td>
</tr>
<tr>
<td>Scheduler</td>
<td>9,000</td>
<td>3,600</td>
<td>8,100</td>
<td>1,050</td>
<td></td>
<td>21,750</td>
</tr>
<tr>
<td>Clerical</td>
<td>22,950</td>
<td>3,120</td>
<td>10,110</td>
<td>3,570</td>
<td>720</td>
<td>40,470</td>
</tr>
<tr>
<td>Expenses</td>
<td>12,000</td>
<td>3,000</td>
<td>200</td>
<td>(1,682)</td>
<td></td>
<td>13,518</td>
</tr>
<tr>
<td>Consultants</td>
<td>1,400</td>
<td>10,000</td>
<td></td>
<td></td>
<td></td>
<td>11,400</td>
</tr>
<tr>
<td>Unbilled balance ESA #1</td>
<td>29,426</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>29,426</td>
</tr>
<tr>
<td>Testing/Lab - CCM &amp; Outside</td>
<td>10,000</td>
<td>15,668</td>
<td>5,372</td>
<td>1,837</td>
<td>484</td>
<td>33,360</td>
</tr>
<tr>
<td><strong>Total Amounts Paid</strong></td>
<td><strong>$ 139,132</strong></td>
<td><strong>$ 86,190</strong></td>
<td><strong>$ 99,725</strong></td>
<td><strong>$ 26,652</strong></td>
<td><strong>$ 4,145</strong></td>
<td><strong>$ 355,844</strong></td>
</tr>
</tbody>
</table>
Fees paid for project management and inspection services totaled $968,692. The following is an analysis of the expenditures:

<table>
<thead>
<tr>
<th>Services Paid</th>
<th>Hrly Rate</th>
<th>Base Agreement</th>
<th>Additional Service</th>
<th>Approved Amount</th>
<th>Amount Paid</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>90</td>
<td>$14,400</td>
<td>$88,625</td>
<td>$103,025</td>
<td>$77,440</td>
<td>$25,585</td>
</tr>
<tr>
<td>Project Manager</td>
<td>78</td>
<td>288,210</td>
<td>97,150</td>
<td>385,360</td>
<td>348,240</td>
<td>37,120</td>
</tr>
<tr>
<td>IOR</td>
<td>58</td>
<td>206,944</td>
<td>78,996</td>
<td>285,940</td>
<td>260,884</td>
<td>25,056</td>
</tr>
<tr>
<td>Scheduler</td>
<td>75</td>
<td>18,900</td>
<td>21,750</td>
<td>40,650</td>
<td>31,500</td>
<td>9,150</td>
</tr>
<tr>
<td>Clerical</td>
<td>30</td>
<td>105,690</td>
<td>40,470</td>
<td>146,160</td>
<td>131,760</td>
<td>14,400</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Testing/Lab - CCM &amp; Outside</td>
<td>66,800</td>
<td>33,360</td>
<td>100,160</td>
<td>92,468</td>
<td>7,692</td>
<td></td>
</tr>
<tr>
<td>Unbilled balance ESA #1</td>
<td></td>
<td>(29,427)</td>
<td>(29,427)</td>
<td></td>
<td>(29,427)</td>
<td></td>
</tr>
<tr>
<td>Consultants</td>
<td></td>
<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Amounts Paid</strong></td>
<td></td>
<td><strong>$713,944</strong></td>
<td><strong>$355,844</strong></td>
<td><strong>$1,069,788</strong></td>
<td><strong>$968,692</strong></td>
<td><strong>$101,095</strong></td>
</tr>
</tbody>
</table>

Additional monies were paid to CSU Chico’s Facilities Management and Services (FMS) department. All costs were supported with work orders that detailed the work performed and the amount for each task. Additionally, there was Memorandum of Understanding between CSU Chico and FMS that defined the scope of services that FMS would provide on the project. Three payments were made that totaled $482,712.

Payments to CCM (excluding testing and consultants) were $864,824. Including the FMS payments, total costs for project management services for the project were $1,347,536, representing 5.68% of total construction costs. Given the project complications, sequencing, and claims associated with this project, we expected management costs to be somewhat higher than the industry average of 2.5% to 3.5%.
LIQUIDATED DAMAGES

Phase I of the project was delayed 43 days beyond the original completion date. This would have provided the University $94,600 (43 days times $2,200) in liquidated damage assessments. Completion of Phase II of the project was recorded as October 29, 2001. The original completion for Phase II was October 2, 2000, 392 days earlier than actual completion. This equates to $1,136,800 (392 days times $2,900) in liquidated damages.

The liquidated damages, along with other damages suffered by the University were proposed as an offset to Bender’s initial claim of $5,074,248. The University settled with Bender in order to avoid litigation. The final settlement was in the amount of $2,000,000. This amount was awarded on the final Change Order No. 223 and awarded Bender a 393-day time extension.

Allen L. Bender, Inc. has since been denied their pre-qualification renewal as of May 9, 2001, based upon failures to meet safety criteria.

Recommendation:

7. CPDC (Chancellor’s Office) should make every attempt to address interim construction time extensions at the time of the delay to reduce the number of contractor claims at the end of projects and maintain better positions in assessing liquidated damages. Although we recognize the importance of keeping projects on schedule, when substantive delays occur due to unanticipated conditions, CSU should negotiate time extensions. This approach creates a cooperative spirit and reduces final “settlement” change orders, contractor claims and trade-offs.

Management Response:

7. We agree. CPDC shall modify SUAM to incorporate these negotiations in the Duties of the Construction Administrator. These new guidelines shall be presented in our July 2003 training sessions.
MAJOR EQUIPMENT REVIEW

The initial review of Contract Documents and Specification was performed at the University. KPMG was furnished a submittal log that was used to select the sample base. Submittal records were provided and reviewed at the campus.

All submittals reviewed were traced from Project Specifications to data submittal and final acceptance. KPMG conducted a project walk-through with a campus representative verifying that specified and approved equipment had been both provided and installed by the Contractor.

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

<table>
<thead>
<tr>
<th>Div. #</th>
<th>Brand</th>
<th>Model #</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>15050</td>
<td>Dura Power</td>
<td>DVE - 80</td>
<td>A. O. Smith Water Heater</td>
</tr>
<tr>
<td>15550</td>
<td>Ajax</td>
<td>WFG7000</td>
<td>Gas Fired Boiler</td>
</tr>
<tr>
<td>15550</td>
<td>Power Flame Type C</td>
<td>CR5-G-30</td>
<td>Burner</td>
</tr>
<tr>
<td>15550</td>
<td>Bell &amp; Gossett</td>
<td>LR-15B</td>
<td>Booster Pump</td>
</tr>
<tr>
<td>15550</td>
<td>Weil</td>
<td>1200-2&quot;</td>
<td>Sump Pumps and Controls</td>
</tr>
<tr>
<td>15550</td>
<td>Weil</td>
<td>8151</td>
<td>Remote Alarm Panel</td>
</tr>
<tr>
<td>15810</td>
<td>Barber Colman Network 8000</td>
<td>LMC-88210</td>
<td>Temperature Control</td>
</tr>
<tr>
<td>16722</td>
<td>Simplex</td>
<td>4100/4120 Series</td>
<td>Fire Alarm Control Panel w/Voice Control</td>
</tr>
</tbody>
</table>

**Recommendation:**

None
ACCOUNTING

KPMG conducted a review of the University’s cost accounting reporting system and invoice processing practices. The CSU Chico Facilities Planning & Management provided a number of automated reports generated by the CPM System that tracked the project budget and actual expenditures. Additionally, the University tracks other pertinent financial data utilizing electronic spreadsheet applications.

We have found the practices for tracking project costs at CSU Chico are adequate and consistent with those in use at other CSU campuses.

Recommendation:

None
June 6, 2003

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

SUBJECT: CAMPUS RESPONSE TO RECOMMENDATIONS: KPMG AUDIT REPORT ON CONSTRUCTION PROJECT NUMBER CH630 – CALIFORNIA STATE UNIVERSITY, CHICO, BELL MEMORIAL UNION PROJECT

Dear Mr. Mandel:

The University reviewed and has considered the recommendations made by KPMG in their audit report, Construction Project Number CH630 – California State University, Chico, Bell Memorial Union Project, and we have the following responses to recommendations #1, 2, 3, 4, and 6.

Recommendation #1
On future projects, when additional authorizations are issued, and it is later determined that the not-to-exceed prices are not billed to the maximum, a deductive change should be issued to close out the amendment and disencumber the allocated funds.

Campus Response
We agree with this recommendation. Our Operational Plan for Delegation of Capital Outlay Management Authority (see Attachment 1) has been modified to add the position of Director of Financial Reporting and Property to carefully monitor project financial transactions, including activity on not-to-exceed agreements. This monitoring along with instructions to project managers to disencumber funds when they are no longer required for the completion of agreements will resolve this issue.

Timeline: Completed

Recommendation #2
The University should consult with General Counsel and pursue penalty assessments to the extent possible for subcontracting violations.
Campus Response
The University agrees with this recommendation and we have been in contact with the Office of General Counsel to discuss this recommendation along with the specific information related to this project. A decision on whether to pursue a penalty assessment against this contractor will be made by July 31, 2003.

Timeline: July 31, 2003

Recommendation #3
On future projects, the University should implement procedures for monitoring the use of subcontractors as outlined in SUAM Section 9822.

Campus Response
The University agrees with this recommendation. Procedures are being implemented for monitoring the use of subcontractors as outlined in SUAM Section 9822. Documentation of the procedures will be completed and included in the University procedure manual by August 31, 2003.

Timeline: August 31, 2003

Recommendation #4
The University should work with CPDC (Chancellor’s Office) to determine whether to pursue compensation for change order costs due to A/E errors and omissions by applying the analysis included in SUAM Section 9236.

Campus Response
The University agrees with this recommendation and has discussed the recommendation with staff at CPDC in the Chancellor’s Office. At the end of the project the University analyzed the change orders on the project classification code to determine the financial responsibility of the project architect for errors and omissions (4.1). At the same time, the University received several claims by the project architect for extra services compensation due to owner initiated changes (4.4) or delays to the project (4.2, 4.6). Considering that both the University claims and the architect’s claims had merit, and in consideration of the difficulty and expense often incurred in seeking reimbursement from an architect for excessive errors and omissions as pointed out in SUAM Section 9236—with little chance of recovery—the University proposes to enter into a settlement agreement with the architect which in essence will off-set the claims of both parties. Anticipated resolution of the settlement is by August 31, 2003.
The rating of the architect’s performance on this project in the post performance evaluation reflects the problems the University had in dealing with this firm and problems on the project that were attributable to the architect’s performance. This evaluation will be recorded by CPDC and taken into consideration when this firm is being considered to provide architectural services for any future California State University projects.

**Timeline: August 31, 2003**

**Recommendation #6**
Wherever practical, the University should contract testing services separately from project management firms as suggested in SUAM Section 9785.

**Campus Response**
The University agrees with this recommendation and on all projects performed after the Bell Memorial Union project (Utility Infrastructure, Education Classroom, and Telecommunications Infrastructure) we have contracted separately for testing services as required by the project and in conformity with the procedures set forth in SUAM Section 9785.

**Timeline: Completed**

Larry, if you have any questions, please give us a call.

Sincerely,

Dennis C. Graham  
Vice President for Business and Finance

Attachment  
cc: Manuel A. Esteban (w/o attachment)  
    Bill Jones (w/o attachment)  
    Greg Francis (w/o attachment)
Memorandum

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

Date: May 27, 2003

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

Subject: Audit Report  
Bell Memorial Union Project  
California State University, Chico

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

RPW:JRC:bn

Attachments

cc: Mr. J. Patrick Drohan  
Mr. James R. Corsar  
Mr. Thomas M. Kennedy  
Ms. Elvira F. San Juan
CONSTRUCTION CHANGE ORDERS

Recommendation:

5. CPDC (Chancellor’s Office) should clarify the intent of the above referenced paragraph 3.05 and determine if Vice Presidents are required to have the Claims Review Board reconsider settlements that significantly deviate from the Board’s findings.

Management Response:

We agree. CPDC shall amend the claims review board procedures, so that they are in line with contract general conditions. These new guidelines and documents shall be presented in our July 2003 training sessions.

LIQUIDATED DAMAGES

Recommendation:

7. CPDC (Chancellor’s Office) should make every attempt to address interim construction time extensions at the time of the delay to reduce the number of contractor claims at the end of projects and maintain better positions in assessing liquidated damages. Although we recognize the importance of keeping projects on schedule, when substantive delays occur due to unanticipated conditions, CSU should negotiate time extensions. This approach creates a cooperative spirit and reduces final “settlement” change orders, contractor claims and trade-offs.

Management Response:

We agree. CPDC shall modify SUAM to incorporate these negotiations in the Duties of the Construction Administrator. These new guidelines shall be presented in our July 2003 training sessions.
MEMORANDUM

TO: Mr. Larry Mandel  
   University Auditor

FROM: Charles B. Reed  
       Chancellor

SUBJECT: KPMG Draft Final Report on the Bell Memorial Union Project (Project No. CH-630) at California State University, Chico

July 14, 2003

In response to your memorandum of July 14, 2003, I accept the response as submitted with the draft final report on the Bell Memorial Union Project at California State University, Chico.

CBR/bh
Enclosure

cc: J. Patrick Drohan, Assistant Vice Chancellor, CSU CPDC  
Dennis C. Graham, Vice President for Business and Finance  
Dennis Hordyk, Assistant Vice Chancellor, Financial Services  
Scott G. McNall, Interim President  
Richard P. West, Executive Vice Chancellor and Chief Financial Officer