

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT AND ADVISORY SERVICES**

**Langley Porter Psychiatric Institute
Inpatient Relocation to Mt. Zion
Architecture Fee Audit**

Project # 23-010

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University of California
San Francisco

Audit & Advisory Services

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SUBJECT: LPPI Inpatient Relocation to Mt Zion, Architecture Fee Audit

Audit & Advisory Services (“A&AS”) conducted an interim audit of architecture fees associated with the Langley Porter Psychiatric Institute inpatient relocation to Mt Zion.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed, and the preliminary draft report was provided to department management in March 2023. Management provided their final comments and responses to our observations in April 2023. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Executive Committee, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

Deloitte & Touche LLP (“Advisor” or “we” or “our”) assisted UCSF Audit & Advisory Services in conducting an interim internal audit of the architecture fees incurred through October 2022 associated with the Langley Porter Psychiatric Institute (“LPPI”) Inpatient Relocation to Mt. Zion project (“LPPI Inpatient Relocation to Mt. Zion” or “Project”) in San Francisco, California.¹

UCSF Health Design and Construction (“UCSF D&C”) contracted KMD Architects (“KMD”) under a lump sum contract in February 2019 to provide architecture and engineering services in the schematic design, design development, construction documents, bidding, and construction phases of the Project. KMD’s initial contract amount was \$2,758,057, of which \$31,750 was designated as a reimbursable budget for expenses. The remaining \$2,726,307 was executed as a lump sum contract. As of October 2022, \$1,864,846 of contract amendments have been executed, bringing KMD’s agreed contract value to \$4,622,903. The contract amendments were executed on a time-and-material basis (“T&M”) with an agreed billing cap for the services. KMD is required to obtain UCSF D&C’s approval before invoicing for amounts that exceed each contract amendment and there was concern that KMD had invoiced for costs that exceeded these caps.

II. AUDIT PURPOSE AND SCOPE

The purpose of the interim review was to identify costs incurred by KMD and its subconsultants which were unsupported, not in compliance with contractual terms, or that appeared to be unreasonable costs compared to hour-tracking conventions and calculating a potential recoverable amount from KMD for such costs.

The procedures included:

- Preliminary review of documents (e.g., contracts, invoices, contract amendments) to gain an understanding of the Project and its scope
- Meeting with UCSF Audit and Advisory Services team and the Executive Director, Design & Construction to provide initial observations, request additional documents, and finalize assessment scope
- Detailed procedures included:
 - Assessment of labor rates billed by KMD and its subconsultants to rates established within KMD’s contract. The subconsultants tested include Cammisa and Wipf Consulting Engineers (“Cammisa and Wipf”), Mazzetti, Inc. (“Mazzetti”), Estructure, Inc. (“Estructure”), and Teecom
 - Reconciliation of labor costs tracked by KMD and its subconsultants to labor billings and contractual price increases to date
 - Assessment of instances where personnel worked greater than eight hours in a day or 40 hours in a week. This is stipulated as unallowable in KMD’s

¹ These services were performed under Professional Services Agreement #2018.000319 between Deloitte & Touche LLP and The Regents of the University of California, a California public corporation on behalf of the University of California

contract, and UCSF D&C is entitled to \$25 of damages per instance according to Article 11.5.1 of the contract

- Compared amounts tracked in labor support to amounts invoiced to UCSF D&C

We reviewed the labor that KMD and its subconsultants tracked to date as summarized in the table below. The costs summarized represent the total labor costs tracked on the Project through October 2022.

Table 1: Summary of Labor Costs Reviewed by Company

Company Name	Labor Costs Reviewed
KMD	\$3,850,932
Camissa and Wipf	\$346,300
Estructure	\$316,019
Mazzetti	\$20,670
Teecom	\$163,713
Total	\$4,697,633

We requested and received Project documentation from UCSF D&C, including KMD’s, contract, contract amendments, contractor and subconsultant invoices, and other supporting documents pertaining to the Project.

Work performed was limited to the specific activities and procedures described above. This report is not intended to, nor can it be depended upon to assess compliance beyond those areas specifically reviewed.

III. SUMMARY

Overall, we found that KMD’s and its subconsultants’ labor costs incurred to date are commensurate with the approved contract value. On the logs that track the labor to date, KMD and its subconsultants tracked the labor incurred under the base contractual scope by design and project phase, while the labor for the additional service requests (“ASR”), which were approved in bundles in the contract amendments, were tracked separately by ASR code. We did not identify instances of KMD or its subconsultants tracking labor hours related to the ASRs under the lump sum scope or lump sum scope under ASR codes. KMD and its subconsultants have evidenced \$4,697,633 in labor costs, while the current approved contract price is \$4,622,903. Therefore, KMD has incurred costs in excess of its approved contract amount for which it is not entitled to invoice; we have not identified instances of KMD invoicing these potential overruns to UCSF D&C. However, we identified potentially non-compliant costs or risks as listed below:

KMD Billing Status: The latest KMD invoice that we reviewed was dated May 23, 2022. The Project is still ongoing and has not achieved substantial completion. Through the May 2022 invoice, KMD had invoiced UCSF D&C for \$3,500,089 of costs across the base contract and contract amendments. As of October 2022, KMD had evidenced in its labor tracking log nearly \$4.7M of labor costs incurred to date, indicating that it may be in an

underbilled position when comparing the amount invoiced to date to costs incurred. KMD may seek compensation for the \$1.2 million of unbilled costs to date in the future. KMD's apparent underbilled position makes it difficult for UCSF D&C to identify potentially non-compliant hours billed, especially if reviewed as part of a high volume of hours billed at the end of the project.

Table 2 below details the amounts invoiced per contractual scope item through May 2022 and the labor amount incurred through October 2022 that we were able to confirm against each scope. We were able to categorize \$4,652,393 of labor costs (representing 99% of the total labor support provided) to either the base scope or one of the 18 ASRs.

Table 2: Reconciliation of May 2022 KMD Invoice to Labor Support through October 2022

Scope of Work	Invoiced through May 2022	Amount Tracked in Labor Support through October 2022
Base Scope	\$2,506,750	\$2,763,435
ASR 03	\$75,330	\$80,585
ASR 04	\$28,957	\$32,099
ASR 05	\$46,429	\$47,628
ASR 06	\$72,625	\$72,720
ASR 07	\$68,239	\$67,823
ASR 08	\$163,540	\$164,223
ASR 09	\$205,000	\$205,239
ASR 10	\$0	\$90,874
ASR 11	\$289,791	\$782,096
ASR 12	\$270	\$16,650
ASR 13	\$2,545	\$13,058
ASR 14	\$12,633	\$90,823
ASR 15	\$27,981	\$176,923
ASR 18	\$0	\$17,053
ASR 20	\$0	\$8,515
ASR 21	\$0	\$1,845
ASR 22	\$0	\$18,900
ASR 23	\$0	\$1,908
Totals	\$3,500,090	\$4,652,393

ASR Billed in Excess of Labor Supported: As part of our testing, we attempted to reconcile the labor tracked by KMD and its subconsultants to the amounts billed to the Project to assess whether the invoiced totals for contract amendments exceeded the amount of labor tracked or the approved contractual caps. We noted that KMD billed \$416 more for ASR 07 than actual costs it was able to support (see Table 2 above).

KMD and Subconsultant Contractual Labor Rates: KMD's contract with UCSF D&C establishes hourly billing rates for KMD and its subconsultants. For the labor support provided, we compared the rates tracked and billed to those established in the contract. We identified a potential net overbilling amount of \$11,763 for rates applied across a

number of labor classifications and for different subconsultants that were not in accordance with the contract.

Personnel Working More than Eight Hours in a Day or 40 Hours in a Week: UCSF D&C’s contract with KMD permits KMD and its subconsultants to bill only up to eight hours in a workday or 40 hours in a week. For each instance of personnel billing for greater than eight hours in a day or 40 hours in a week, UCSF D&C may impose a \$25 penalty that may be deducted from KMD’s total invoiced amount. We have identified 793 instances (out of 8,567 daily time entries, or 9.3% of total) of personnel tracking hours in violation of this contract article which would result in \$19,825 of penalties to be applied by UCSF D&C. Because KMD is currently underbilled relative to costs it has incurred on the Project, it is not possible to confirm whether KMD has billed UCSF D&C for these additional hours worked at this time. However, at contract closeout, UCSF D&C should assess whether these hours were billed and seek reimbursement.

Table 3: Summary of Potentially Non-Compliant Costs

Tested Category	Total Tested	Potentially Non-Compliant Costs
Non-Compliant Labor Rates		\$11,763
Instances of Greater than 8 Hours in a Day / 40 Hours in a Week	\$4,697,633	\$19,825
ASR 07 Billed in Excess of Supported Labor		\$416
	Total	\$32,004

IV. OBSERVATIONS AND MANAGEMENT RESPONSES

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>Management Response</u>
1	<p><u>Variance to Contractual Labor Rates</u></p> <p>Exhibit B of UCSF D&C’s contract with KMD establishes labor rates for various personnel positions for KMD and subconsultants Cammisa and Wipf, Mazzetti, Estrucure, and Teecom. In the labor backup provided, we identified instances of KMD and Cammisa and Wipf tracking labor costs at rates higher than contractually permissible, while Estrucure and Mazzetti tracked labor costs at rates lower than stipulated by the contract. In total, we identified \$11,763 of potential overbilling comprising the over and under billings listed below:</p> <ul style="list-style-type: none"> • KMD – \$16,898 • Camissa and Wipf – \$1,328 • Estrucure – (\$1,673) • Mazzetti – (\$4,790) 	<p>UCSF D&C risks overpaying KMD and its subconsultants if they bill at rates higher than contractually permissible.</p>	<p>We recommend that UCSF D&C notify KMD of contractual non-compliance and require KMD to correct the incorrect labor rates in future invoices. We also recommend that at project completion, UCSF D&C performs a closeout audit to identify additional recovery due to rate non-compliance.</p>	<p>UCSF Health Design & Construction will notify KMD of the contractual non-compliance related to incorrect charging of labor rates and to rectify this in future invoices.</p> <p>Target completion date: April 28th, 2023</p> <p>Next Steps: UCSF Health Design & Construction will at project completion perform a close out audit to identify additional recovery due to rate non-compliance.</p>
2	<p><u>Instances of Employees Working Greater than Eight Hours or 40 Hours in a Week</u></p> <p>Article 11.5.1 of UCSF D&C’s contract with KMD reads:</p> <p><i>Design Professional shall not permit any worker providing Covered Services to labor more than 8 hours during any 1 day or more than 40 hours during any 1 calendar week...Design Professional</i></p>	<p>UCSF D&C may be entitled to recover costs due to non-permissible hours being recorded and charged to UCSF D&C on the Project.</p>	<p>We recommend that UCSF D&C notify KMD of contractual non-compliance and ask KMD to only bill for up to 8 hours per day or 40 hours per week in future invoices. We also recommend that at</p>	<p>UCSF Health will inform KMD of the contractual non-compliance and require KMD to bill for up to 8 hours per day or 40 hours per week</p> <p>Target completion date: April 28th, 2023</p>

<u>No.</u>	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>Management Response</u>
	<p><i>shall forfeit to University, as a penalty, \$25 for each worker employed in the execution of the Agreement by Design Professional, any subconsultants or consultant, for each day during which such worker is required or permitted to work providing Covered Services more than 8 hours in any 1 day or 40 hours in any 1 calendar week in violation of the terms of this Paragraph...Such forfeiture amounts may be deducted from the compensation otherwise due under this Agreement.</i></p> <p>Therefore, UCSF D&C is entitled to recover \$25 per instance of KMD's or subconsultants' personnel billing for greater than eight hours in a day or 40 hours in a week. In the labor backup provided, we identified 793 instances (out of 8,567 daily time entries) where KMD or its subconsultants were not compliant with this contractual stipulation. If the \$25 penalty is applied to each instance, UCSF D&C is entitled to recover \$19,825.</p> <p>However, at the time of our review, KMD was underbilled relative to costs it had incurred by over \$1 million on the Project (see Observation 3), so we were unable to confirm whether the cost of these non-permissible hours was billed to the Project at this time.</p>		<p>project completion, UCSF D&C performs a closeout audit to identify additional recovery due to non-compliance with allowable billable hours.</p>	<p>Next Steps: At project completion, a close out audit will be performed to identify any further non-compliance with allowable billable hours.</p>

<u>No.</u>	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>Management Response</u>
3	<p><u>KMD is not Current on Invoicing</u></p> <p>KMD has invoiced for \$3,500,089 of costs through May 2022. In our review of its supporting documentation, KMD and its subconsultants have evidenced costs incurred higher than the current agreed contract value of \$4,622,903. Therefore, it appears that KMD is potentially underbilled by over \$1.1 million.</p> <p>If KMD waits until contract closeout to invoice for the remaining hours incurred, it will be more difficult for UCSF D&C to analyze the hours invoiced due to the volume of hours billed at one time. Further, UCSF D&C may miss the opportunity to “correct” KMDs approach and doing so at the conclusion of the project may be more contentious if KMD’s expectation is that it will be paid for its incurred hours.</p>	<p>Due to KMD’s underbilling, it is difficult for UCSF D&C to identify potentially non-compliant hours billed to date.</p>	<p>We recommend that management encourage KMD to invoice for its costs to date.</p>	<p>UCSF Health Design & Construction will request KMD to submit invoices for its costs to date.</p> <p>Target completion date: <u>April 28th, 2023</u></p>
4	<p><u>ASR Billed in Excess of Labor Supported</u></p> <p>ASR 07 was approved in contract amendment 1 on a T&M basis with a cap of \$68,239. Through May 2022, KMD invoiced up to the contractual cap for this scope item. However, in its labor backup provided, KMD only substantiated \$67,823 of costs associated with this scope item, which results in a \$416 overbilling by KMD.</p>	<p>UCSF D&C risks overpaying KMD and its subconsultants if they invoice for costs on a T&M basis without support.</p>	<p>We recommend that management reassess whether this observation is valid at closeout.</p>	<p>At project completion a close out audit will be performed to validate that all costs charged on T&M basis are appropriate and supported.</p>