

**CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS**

STUDENT HOUSING – PHASE I

Final Report

April 1, 2005

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS
STUDENT HOUSING - PHASE I

April 1, 2005

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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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EXECUTIVE SUMMARY

Summary of Findings

Based upon our evaluation, the CSU Channel Island Student Housing - Phase I Project was administered consistent with our expectations of a project of this size, scope and complexity, but with certain areas in the planning and execution process that could be improved. We did not find any significant control or process weaknesses that would expose CSUCI to major unnecessary risks, but we did uncover several 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.

	Observation	Risk	Recommendation
1.	Owner estimates are not in line with actual construction costs. Bids include dissimilar components.	May result in cost overruns on the project and/or inability to meet schedule, scope and/or quality requirements. Potential difficulty normalizing bids, which may result in expensive change order additions.	At time of drafting the RFP, use a construction model reflecting current market pricing in order to achieve a budget commensurate with desired scope. <u>Ownership: CPDC</u>
2.	The contractor's reported actual change order costs were \$100K lower than the quotes submitted to the University.	The University may overpay on change order work if detail quotes from subcontractor or vendor are missing or if such quotes are submitted inflated.	CPDC should consider pursuing apparent contractor overpayments. <u>Ownership: CPDC</u>
3. & 4.	Decisions affecting the scope, schedule, and budget were not memorialized in writing including use of special wage rates without express approval from the DIR and without consideration from General Counsel.	Unless appropriately documented, major decisions affecting scope, schedule, and budget may be misunderstood and could result in sub-optimization of scope and increased costs. The University may be exposed to legal ramifications. In addition, there is a risk of cost overruns rather than intended cost savings.	3) CPDC should memorialize in writing major project decisions regarding scope, budget, or schedule. 4) Any deviations from Labor Code or CSU Construction Management Procedures should be formally documented and authorized in writing by CPDC, Campus Executives and CSU Legal Counsel. <u>Ownership: CPDC</u>
5.	There are unused funds still encumbered for BTC Laboratories.	Leaving funds encumbered unnecessarily may not be the most efficient management of financial resources.	Once final invoices are paid to a vendor or consultant, any remaining balances should be credited back against the agreement to close it out and to disencumber any unused funds. <u>Ownership: CPDC</u>

EXECUTIVE SUMMARY

	Observation	Risk	Recommendation
6.	There is a limited amount of submittal material retained by the University.	The University may lose insight to the proposed work and undesirable construction results may occur. It is difficult to reconstruct the detail and timeline of the submittal approval process afterward, if needed.	a) Obtain copies of all fabrication drawings, shop drawings, samples, materials list, and manufacturer's equipment brochures. <u>Ownership: CSUCI</u> b) On future projects, review, acknowledge and log all submittals. <u>Ownership: CPDC</u>
7.	No project evaluation was available as documentation of successful measures or lessons learned.	Not performing a Post Project Debrief limits the visibility of project performance to third parties, including the Board of Trustees and outside auditors.	Prepare a lessons learned evaluation. <u>Ownership: CPDC</u>
8.	There was no summary document available showing project budget to cost variances.	Not having the most useful tools in evaluating project cost variances may impact future project budgets. It also limits third parties from gaining easy insight to project costs.	Prepare a final accounting in a format similar to CPDC Form 2-7 for all projects. <u>Ownership: CPDC</u>

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, Channel Island’s (“CSUCI” or “the University”) Student Housing – Phase I project (“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 best 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 additional items that we believe will provide significant value to the CSU. KPMG identified specific areas within the scope listed below that present the greatest potential for substantive loss or liability for the CSU Channel Island Student Housing - Phase I 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 (*included for information, contains no recommendations*)
- 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, University contract documents and other material related to the project and compare current practices and procedures with University requirements and best practices in the industry;
- 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 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.

PROJECT BACKGROUND

KPMG was retained by California State University’s Office of the University Auditor to perform an evaluation of the CSU Channel Island Campus Student Housing, Ph 1 (CI-778) Project, later named “Anacapa Village”. The project incorporated new student housing as 4-bedroom apartments with kitchen, common areas, laundry facilities, recreation area, parking facilities and a swimming pool. In total there are 353 bedrooms within three residence halls.

The Project was centrally managed by CSU Capital Planning, Design and Construction (CPDC) as the CSUCI campus does not have Delegation Authority to locally manage their own projects. The CSUCI Operations, Planning, and Construction office (OPC) still played a significant role in the day-to-day management of the project as directed by CPDC. CPDC’s role on the project included having ultimate oversight and responsibility for the project. For example, CPDC negotiated the Design-Build contract, approved change orders and authorized vendor payments. OPC was responsible for the day-to-day aspects of design and construction. Duties of the Campus Project Manager included reviewing submittals, having daily interactions with the Contractor and checking application for payments.

During the week of December 14 – 20, 2004, KPMG conducted its field work and reviewed project records from the following entities involved with the project:

Design-Build Contractor	HMH Construction, Inc. Ambling West, LLC
Architect (retained by Contractor) Inspection (IOR)	Corcoran & Corcoran BTC Laboratories Leighton Consultants
Project Management	CSU Capital Planning, Design and Construction (CPDC) CSUCI Operations Planning and Construction (OPC)

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-Build, Lump Sum contract with the Design-Build general contractor being a joint venture between HMH Construction, Inc. and Ambling West, LLC (HMH/Ambling, the Joint Venture or the Contractor)¹. The design was contracted by HMH/Ambling to Corcoran & Corcoran Architects.

¹ Ambling West is, according to Conrad Sick of Valeo Companies, the housing arm of Valeo Companies.

Timeline

The Design-Build RFP was issued in January 2003. The Contractor was selected in March of 2003 followed by the Board of Trustees approval of a Bond Sale. Notice to proceed was given to the Contractor on April 28, 2003. Construction started in July 2003 and the project was finished in August 2004.

Project Costs

The entire project was initially funded at \$17,620,000 including design, construction (housing and parking), Furniture, Fixtures and Equipment (“FFE”), the CPDC Administrative fees and contingency. Total actual expenditures on the project were close to the funded amount per CPDC; \$17,354,829, which included a total encumbered, but unused, amount of \$110,637 for a net of \$17,244,192.

The following table summarizes the actual costs to date and current encumbrances, per CSU Office of the Chancellor “Project/Grant by Fund by Account Detail Report” dated November 30, 2004:

Description	Encumbered	Actuals	Budget Balance Available 1)
Plan Check	-	\$29,486	\$29,486
Peer & Constructability Review	-	\$12,375	\$12,375
Contractor Contract Cost	Incl. below	\$16,579,027	\$16,579,027
Other Construction Contract Costs	Incl. below	\$42,572	\$42,572
Total Construction Contract Cost	\$52,122	\$16,621,599	\$16,673,721
Inspection and Constr Mgmt	\$58,516	\$117,485	\$176,000
CPDC Fees	-	\$428,835	\$428,835
Acctng Fees	-	\$34,412	\$34,412
Total Operating Expenses	\$110,638	\$17,244,192	\$17,354,829

1) Budget Balance Available is a terminology used by the University on the Project/Grant by Fund by Account Detail Report, which equals encumbered but unused amounts plus actual paid costs.

DESIGN COSTS

The Project was delivered using a Design-Build methodology and as such CPDC and CSUCI had no direct contractual relationship with an Architectural firm. The Contractor was solely responsible for selecting the Designer. Corcoran & Corcoran was eventually retained by HMH/Ambling West.

The design contract, amendments and associated design costs and Contractor payments were obtained from the Contractor and reviewed by KPMG to verify that any design related change orders authorized by CSU to the Contractor were appropriately issued to the Architect. The documents were also reviewed for compliance with terms and conditions set forth by the primary Design-Build contract.

The Architectural contract value was \$232,500 and the base contract was executed in April, 2003 through Ambling West. The amount can be compared to the bid amount of \$242,000. The bid amount was reasonable and nothing came to KPMG's attention that would indicate any risk exposure to CSU related to Design Costs.

Recommendation:

None

CONSTRUCTION BID PROCESS

The Design-Build RFP bidding process for this project was administered centrally through CSU's Capital Planning, Design and Construction Office ("CPDC").

The RFP called for a technical proposal and a cost proposal to design and construct the total project to be submitted in accordance with detailed project performance specifications. The estimated design-build budget at time the RFP was issued was \$13,900,000.

Five contractors were deemed pre-qualified through the CSU standard pre-qualification process. According to both CPDC and CSUCI, during pre-proposal discussions, all prospective bidders raised concerns with the estimated budget for the project as being too low. Prior to bid opening, four addendums were issued to the original RFP, ultimately increasing the project budget to \$15,000,000 and adding the Parking Lot work, among other things. No additive or deductive alternates were included with the RFP and the budget of \$15,000,000 was directed to the bidders to be met. Per Revised Addendum #4, bidders were also instructed to reduce quality over scope if cost estimates exceeded the proposed budget.

Through a competitive bid process, three of the five pre-qualified contractors submitted bids. The bids were evaluated based on price and quality points. HMM/Ambling West was the winning Contractor at \$14,999,997 and with the highest earned quality points. Despite the increased budget and the instructions in Revised Addendum #4 not to reduce scope, none of the three bids included all scope elements outlined in the RFP. The winning bidder did not include the pool and spa. As a result, the contract was executed without the inclusion of these items. Change Orders later added provisions for the pool and spa. In addition, change orders also added the upgrade of electronic locks as well as adjustments to prevailing wage rates. These change orders resulted in a higher contract value compared to what was initially anticipated. The RFP did not include provisions the electronic locks or the higher prevailing wage rate.

The final contract value was \$16,579,271, nearly 20% higher than the estimated project budget included with the initial RFP and over 10% higher than the construction budget approved by the Board of Trustees. The 20% overrun is the result of the bidding contractors' inability to meet the desired scope (within the initial budget) and high cost items not incorporated in the initial RFP and added as change orders later. KPMG believes some of these issues could have been addressed in the RFP at time of bid. The 10% overrun from the Board estimate poses a risk. The Project Contingency of \$642,000 was completely exhausted to cover this overrun. In addition, subsequent savings on other line items plus interest income helped balance the increased construction costs. If the project had not been able to fund itself, the Project may have exceeded the Board Approved limit, especially due to the large amount of change orders resulting from the increased prevailing wage rate, where the University had no choice but to increase the contract amount.

Risks:

Owner estimates that are not in line with actual construction costs may result in cost overruns on the project and/or inability to meet schedule, scope and/or quality requirements.

Bids that include different components may result in a difficulty for the Owner to normalize and compare bids, potentially resulting in selection of a contractor performing lower quality work and/or more expensive change order additions. It also poses a risk of bidder non-responsiveness.

Recommendation:

1. At time of drafting the RFP, use a construction model reflecting current market pricing in order to achieve a budget commensurate with the desired scope.
(Ownership: CPDC)

Management Response:

1. We agree. The budget was prepared by the campus, using CSU cost guides, and checked by CPDC. However, no one could have predicted the level of escalation of the price of lumber and the additional cost of workers' compensation insurance realized in the fall of 2002. During the RFP period, contractors complained that the construction budget was deficient due to cost escalation, warranting a significant increase. Therefore, the initial budget of \$13.5M was augmented by \$1.5M, to a total of \$15M. Still, no proposer provided the full scope of work in its proposal.

The cost increase is not unique to this project. Construction price escalation continued to impact projects through late 2004.

Aside from the recommendation above, KPMG reviewed the bid files and bid process without comment. All Contractor invoices were submitted and approved in accordance with CSU general conditions and SUAM. No deviation from CSU procurement policies was noted.

Subcontractor Compliance

As this was a design-build contract, no list of subcontractors was required to be submitted until they had been selected per Addendum #1 and the Contract General Conditions, Article 32.05.

The Contractor submitted an Expanded List of Subcontractors as well as a required Subcontract Status Report to demonstrate compliance with the Subletting and Subcontracting Fair Practices Act. When the submitted list of subcontractors was compared to the Contractor's actual cost record, KPMG's test work discovered no evidence of subcontractor substitution.

Recommendation:

None

CONSTRUCTION CHANGE ORDERS

Eighty-one Change Orders had been executed on the project at the time of KPMG’s review. Changes totaled \$1,579,274 with \$1,123,371 resulting from changes in the prevailing wage rates, as discussed below.

We evaluated change orders and traced subcontractor estimates to the actual subcontractor change orders. We noted that certain change orders consisted of a contractor estimate rather than a quote from the subcontractor or vendor. Although General Conditions Article 37.01 and SUAM 9820 allows for lump sum estimates of change orders rather than a detail subcontractor or vendor quote, it may not be the best business practice to process change orders using Contractor estimates.

None of the sampled CPDC Change Order files contained any documented independent cost estimate. CPDC explained that although typically several key people are involved in the change order pricing and entitlement negotiation process, this may not be documented in the individual Change Order files. Sound independent cost estimates are industry standard and ensures the Contractor’s quote is not excessive.

The majority of the change orders, primarily related to prevailing wage rates, did not significantly exceed the contractor estimates. However in aggregate, the change order estimates exceeded actual contractor costs by approximately \$100K. The table below outlines the sampled change orders:

Subcontractor	CO	Paid by CSU	Actual Amount per HMH Records	Difference
HMH ¹⁾	#1	\$94,328	\$82,110	\$12,218
Rucker Tile	#2	\$42,576	\$29,475	\$13,101
C & S Pipeline	#3	\$56,152	\$47,257	\$8,895
Doorway Manufacturing	#12	\$188,568	\$176,025	\$12,543
Ace Fire Protection	#15	\$488,239	\$478,991	\$9,248

1) Subcontractor to the Joint Venture is listed as HMH, which in turn is a Joint Venture Partner.

The costs above come from the Joint Venture job cost report and documentation, as provided by HMH Construction. HMH argues that some of the difference may be due to mark-up, but did not provide such documentation. Also, some of the HMH actual amounts were labeled “potential” at the time of our review, leading us to suspect possible larger differences. After KPMG’s work was completed, HMH submitted additional documentation representing the Joint Venture’s final accounting for the change order costs. The documentation is currently in the process of being reviewed by CPDC for potential inappropriate billings.

Risks:

The University may overpay on change order work if detail quotes from subcontractor or vendor are missing or if such quotes are submitted inflated or not verified independently. In the situation of a sub-contractor also being a JV Partner there is a potential additional Contractor profits.

Recommendation:

2. CPDC should consider pursuing apparent contractor overpayments. (This is a reactive measure to recover any detected Contractor overcharges). (Ownership: CPDC)

Management Response:

2. We disagree. The Chief of Construction Management has analyzed the data presented by auditors and found no basis for pursuit of overpayment. In the design-build process, the design-builder estimates the cost of the project at the time of submission of his lump-sum bid proposal. In estimating this cost, the design-builder will generally use square foot estimates. He may also obtain actual subcontractor bids, but he is not required to competitively solicit sub bids until the design is complete. In this case, the design-builder solicited subcontractor bids when the design was complete.

Change Order Report Analysis

The University provided a change order log that reflected the initiating source of each Change Order. The following table summarizes the data:

Type Of Change		Amount	% of Total CO	% of Orig. Contract
4.1	Error in or omission from the contract documents	-	-	-
4.2	Unforeseeable job site condition	\$ 57,773	3.66%	0.39%
4.3	Change in the requirements of a regulatory agency	\$ 1,153,353	73.03%	7.69%
4.4	Change originated by the University	\$ 368,148	23.31%	2.45%
4.5	Changes in specified work due to the unavailability of specified materials	-	-	-
4.6	Other	-	-	-
	Total Change Orders	\$ 1,579,274	100.00%	10.53%
	Original Contract Amount	\$14,999,997		
	Total	\$ 16,579,271		

All but one of the sampled CPDC Change Order files followed the Change Order mark-up requirements as outlined by the General Conditions. The exception was not material and not the result of any repeat misapplication of the change order mark-up.

All sampled CPDC Change Order files followed the signature authorization requirements. All Time and Materials changes reviewed by KPMG contained appropriate back-up and were supported by an authorizing Field Instruction.

Recommendation:

None

Prevailing Wage Rate

The majority of the change orders were related to issues with the prevailing wage rates.

In May 2000 the East Campus Housing project (unrelated to the Student Housing - Phase I Project) was started. CPDC advised the Executive Dean at CSUCI to submit to the Director of Industrial Relations (DIR) for Special Determination for Residential Prevailing Wage Rates, which would result in lower labor costs for the University. It took DIR until October 2000 to respond.

CPDC was approached in October 2002 about managing the Student Housing - Phase I Project, requiring occupancy by August, 2004, per the President's Directive. CPDC informed the Executive Dean and Vice Chancellor that minimal sequential durations of required tasks involved would yield an earliest completion date of November, 2004. As a result of the time constraints on the project, the RFP was issued and bids were accepted without having obtained express approval on a Special Determination for Prevailing Wage Rates, which ultimately resulted in \$1.1M in change orders on the project. CSU literature states that a design-build project at a minimum takes 24 months.

CPDC presented the following options available to the Campus Executives:

- A) Go through the application process with the DIR for special wage rate determination and plan on occupancy January 2005. (The Campus rejected this idea as they considered they would not be able to meet the desired level of occupancy and revenue levels on time).
- B) Use commercial prevailing wage rates where special determination from DIR would not be necessary in order to save 3 months, however the project would have cost an estimated 5%-8% more due to paying higher wages.

- C) Use the October 2000 special wage rate determination obtained for the East Campus Housing project. If there was a problem or complaint, the Campus could then ask the DIR for a corrected/updated special determination.

The decision was made by the University and CPDC to proceed with Option C, however this was not documented in writing.

In June 2003 the University and DIR received a communication from Sheet Metal Workers Local Union No. 273 claiming that commercial wage rates should be used on the project. The DIR reminded the University that the Special Prevailing Wage rate issued in October 2000, pertained to the East Campus Housing Project only and could not be used for the Student Housing Project – Phase I.

A Special Wage Rate Determination for the Student Housing Project – Phase I was ultimately rejected by the DIR on this project. As a result, the University was required to pay the wage differential for commercial wage rates, retroactively and going forward, to the affected subcontractor and contractor trades based on actual hours worked. This resulted in \$1,123,371 in restitution pay, including at least \$58,189 in contractor and subcontractor administration fees. It is not known or easily determined if the University paid more under this scenario compared to what it would have paid had the labor been bid at commercial wage rates in the first place.

Risks:

Limited time allotted to programming, design, estimating and agency review prior to approval of funding and before construction begins may result in sub-optimization of scope, leading to increased costs later on. Any major project decisions affecting scope, budget or schedule not memorialized in writing increase the risk of misunderstandings because facts, circumstances and terms assumed by CSU and/or the Campus are not clearly described and formally agreed to by all parties involved.

Noncompliance with governing Labor Code, rules, regulations and guidance causes exposure for the University. In addition, by not knowing what labor costs will be incurred at time of bid, there is a risk of cost overruns rather than intended savings.

Recommendations:

3. CPDC should consider ways to improve documentation of major project decisions and agreements with campus executives. (Ownership: CPDC)

4. Any deviations from Labor Code and CSU Construction Management Procedures should be formally documented and authorized in writing by campus executives, CPDC, and CSU General Counsel. (Ownership: CPDC)

Management Responses:

3. We agree. It would be appropriate to memorialize the agreement in a memo to the project file, and copy the participants in the decision.
4. We disagree that this was a deviation from the Labor Code. At the time, the Dept. of Industrial Relations was taking 4-6 months to respond to requests for special determinations versus their own regulations that require that they issue a response within 45 days. We used existing residential rates in use on the East Campus Housing Development, rather than wait months for the special determination for this project. Waiting would have resulted in failure to achieve the project by fall of 2004, loss revenues for fall of 2004, and very low occupancy and revenues for spring 2005. This was a management decision with the concurrence of the Office of General Counsel. We (management included) recognized the risk and retained contingency funds to cover any possible increase in wages. As stated in the response to Recommendation No. 3, it would have been appropriate in this situation to memorialize this situation and subsequent agreement in a memo file.

Labor and Fringe Burden

The majority of the change orders were related to labor, mainly subcontractor labor charges. The subcontractor's labor rates were thoroughly audited by the Labor Compliance function at CPDC. KPMG reviewed the audit documentation, including the burden build-up calculations and the certified payroll submitted by individual subcontractors without comment.

Recommendation:

None

PROJECT MANAGEMENT INSPECTION SERVICES

Independent project management inspection services were provided on the project by BTC Laboratories (“BTC”). BTC was retained to deliver full time general on-site construction inspection services and specialty inspections as needed and produce written reports in accordance with the scope of the work.

KPMG obtained a copy of the agreement, entered into on June 30, 2003, in the amount of \$176,000 (not to exceed). No amendments were issued to the contract. All billings were all in accordance with the agreed upon hourly rates and had appropriate signature approvals. Total billings against the contract were \$117,485, leaving a balance of \$58,515. It is noted in a current fund accounting report for the project that this balance remains encumbered for BTC.

Risks:

Leaving funds encumbered unnecessarily may not be the most efficient management of financial resources.

Recommendation:

5. Once final invoices are paid to a vendor or consultant, any remaining balances should be credited back against the agreement to close it out and to disencumber any unused funds. See also table presented under “Project Costs” in the Project Background section. (Ownership: CPDC)

Management Response:

5. We agree, and this was done for the BTC Laboratories agreement as well as for the Leighton Consulting agreement.

MAJOR EQUIPMENT/MATERIALS REVIEW

Since the Student Housing - Phase I was a design build project, no detail size and output requirements were available at time of bid. The equipment selected was verified in the field against performance specifications issued, drawings and engineering calculations 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
14212	A04	Schindler	2,500 lbs, 150FPM	Elevator Machinery
16100	E04	Magnum	MDS630	Main Switchboard, MSB
16100	E04	Cutler Hammer	ND50K	Distribution System Board, Building B
02730 15400	WU4	Flygt	CP-3085LT	Lift Station
15400	P02	Raypak	175 Gallons Cat No. 400021G	Hot Water Heater HWT1

The University did not keep copies of all detail submittals because this was a Design-Build project and detail submittals were kept by the Architect. As noted in the General Conditions Sections 34.06 and 36.04, the Design Builder should send all submittals, such as fabrication drawings, shop drawings, samples, materials list, and manufacturer's equipment brochures, to the University.

KPMG notes that in the "Submittal Requirements and Procedure Guide for CSU Design Build Capital Projects Project" project submittals are defined as five distinct design milestone points, which are different than the submittals described in the General Conditions. It is noted that the five milestones are minimum requirements and were adhered to.

Risks:

Without a participation in the submittal process, the University may lose insight to the proposed work to be performed and as such undesirable construction results may occur. Without access to submittals, it is difficult to reconstruct the detail and timeline of the submittal approval process afterward, if needed.

Recommendations:

- 6a. Obtain copies of all fabrication drawings, shop drawings, samples, materials list, and manufacturer's equipment brochures. (Ownership: CSUCI)

- 6b. On future projects, review, acknowledge, and log all submittals. (Ownership: CPDC)

Campus Response:

- 6a. We have obtained the requisite documentation.

Management Response:

- 6b. We agree.

CLOSE-OUT PROCESS

KPMG verified the project close out requirements established by the Contract General Conditions and SUAM. The CSU Standard Close Out Check list was used by the University and completed timely on August 6, 2004. KPMG reviewed Certificate of Completion, Certificate of Occupancy, Punch List, Operating Permits, O & M Manuals, Warranties, As-Built Drawings, Pre-Final and Final Inspections, Punch List, and other relevant project close out documentation, which was filed and retained properly at the University.

It was noted by KPMG that no Post Project Performance Review has been completed for this project. Per Executive Order No. 672, CPDC is currently required to perform a Post Project Performance Review. KPMG understands that typically, this review is intended for the CPDC to evaluate the performance of an individual Campus Administered project, however it is still good business practice to debrief and document each project's successful measures as well as lessons learned.

A review of lessons learned from earlier projects could help identify problems that may materialize during future project. A subsequent analysis of these problems should lead to ways to avoid or mitigate them. Debriefing projects and documenting lessons learned helps set realistic schedule and estimating accurate costs on future projects, it feeds the continuous improvement process, and provides input to the overall quality assurance and risk management efforts by CSU.

Post-project debrief is standard in many government environments. For example, a Review of Lessons Learned is implemented by the State of Washington and is a part of their Project Management Framework. The Federal Transit Administration also has a formal Lessons Learned Program. American Society of Civil Engineers has published articles discussing how to make effective use of construction lessons learned in a project life cycle for the benefit of future projects.

Risks:

Not performing and documenting each construction project limits the visibility of project performance to third parties, including the Board of Trustees and outside auditors and does not illustrate lessons learned.

Recommendation:

7. We encourage CPDC to perform an evaluation similar to the Prepare a Post Project Performance Review for the purpose of documenting what went well and what did not go so well on the project in an effort to capture best practices and lessons learned for the benefit of future projects. (Ownership: CPDC)

Management Response:

7. We agree, and this was done.

LIQUIDATED DAMAGES

The State Fire Marshal Certificate of Occupancy was issued on July 28, 2004 and the Certificate of Completion was issued by CSU on August 2, 2004. Since the Contractor completed the project and the University took beneficial occupancy ahead of schedule (468 calendar days after Notice To Proceed or August 8, 2004, as per the contract agreement), liquidated damages were not warranted.

Recommendation:

None

ACCOUNTING

KPMG reviewed the accounting process for the project with CPDC and the University, including invoice processing and accounts payable. CPDC provided a number of reports generated by the accounting system as well as several excel spread sheets used for cost tracking purposes. The process of receiving, reviewing and entering a contractor or vendor invoice into the system for processing was discussed with CPDC.

It was noted that no final accounting in the format of CPDC Form 2-7 was prepared. KPMG has observed this type of summary prepared on other projects, which serves as a useful comparison tool between the original Board approved capital outlay estimate and final actual project costs.

Risks:

Not having the most useful tools in evaluating project cost variances may impact future project budgeting efforts and contribute to overruns and inefficiencies. It also limits third parties from gaining easy insight to project costs.

Recommendation:

8. Prepare a final accounting for all projects in an effort to illustrate budget variances and for evaluation of any overruns. (Ownership: CPDC)


Management Response:

8. We agree. CPDC has established a process of final reporting to the Trustees, which includes evaluation of overruns in the Post Project Performance Review Report, under “lessons learned.” There is no need to add a “budget vs. expenditures CPDC 2-7” to this process, as this information was available from the project data workbook submitted with the Post Project Performance Report, and then reported in the Completed Projects Report to the Trustees. In addition, we modified FIRMS categories to match completed projects report categories, and can then obtain reports from Budget.

Memorandum

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

Date: June 29, 2005

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

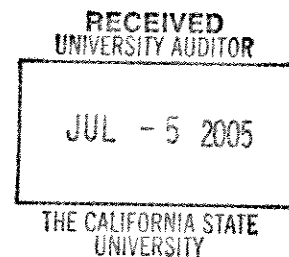
Subject: **Audit Report**
Student Housing, Phase I; Project No. CI-778
California State University, Channel Islands

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

RPW:JRC:bn

Attachments

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



CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS
STUDENT HOUSING - PHASE I

CONSTRUCTION BID PROCESS

Recommendation:

1. At time of drafting the RFP, use a construction model reflecting current market pricing in order to achieve a budget commensurate with the desired scope. (Ownership: CPDC)

Management Response:

1. We agree. The budget was prepared by the campus, using CSU cost guides, and checked by CPDC. However, no one could have predicted the level of escalation of the price of lumber and the additional cost of workers compensation insurance realized in the fall of 2002. During the RFP period, contractors complained that the construction budget was deficient due to cost escalation, warranting a significant increase. Therefore, the initial budget of \$13.5M was augmented by \$1.5M, to a total of \$15M. Still, no proposer provided the full scope of work in its proposal.

The cost increase is not unique to this project. Construction price escalation continued to impact projects through late 2004.

CONSTRUCTION CHANGE ORDERS

Recommendations:

2. CPDC should consider pursuing apparent contractor overpayments. (This is a reactive measure to recover any detected Contractor overcharges). (Ownership: CPDC)
3. CPDC should consider ways to improve documentation of major project decisions and agreements with campus executives. (Ownership: CPDC)
4. Any deviations from Labor Code and CSU Construction Management Procedures should be formally documented and authorized in writing by campus executives, CPDC, and CSU General Counsel. (Ownership: CPDC)

Management Responses:

2. We disagree. The Chief of Construction Management has analyzed the data presented by auditors, and found no basis for pursuit of overpayment. In the design-build process the design-builder estimates the cost of the project at the time of submission of his lump sum bid proposal. In estimating this cost, the design-builder will generally use square foot estimates. He may also obtain actual subcontractor bids, but he is not required to competitively solicit sub bids until the design is complete. In this case, the design-builder solicited subcontractor bids when the design was complete.
3. We agree. It would be appropriate to memorialize the agreement in a memo to the project file, and copy the participants in the decision.
4. We disagree that this was a deviation from the Labor Code. At the time, the Dept. of Industrial Relations was taking 4-6 months to respond to requests for special determinations versus their own regulations that require that they issue a response within 45 days. We used existing residential rates in use on the East Campus housing development, rather than wait months for the special determination for this project. Waiting would have resulted in failure to achieve the project by Fall of 2004, loss revenues for Fall of 2004, and very low occupancy and revenues for Spring 2005. This was a management decision with the concurrence of the office of general counsel. We (management included) recognized the risk and retained contingency funds to cover any possible increase in wages. As stated in the response to Recommendation No. 3, it would have been appropriate in this situation to memorialize this situation and subsequent agreement, in a memo to file.

PROJECT MANAGEMENT INSPECTION SERVICES

Recommendation:

5. Once final invoices are paid to a vendor or consultant, any remaining balances should be credited back against the agreement to close it out and to disencumber any unused funds. See also table presented under "Project Costs" in the Project Background section. (Ownership: CPDC)

Management Response:

5. We agree, and this was done for the BTC Laboratories agreement as well as for the Leighton Consulting agreement.

MAJOR EQUIPMENT/MATERIALS REVIEW

Recommendation:

- 6b. On future projects, review, acknowledge and log all submittals. (Ownership: CPDC)

Management Response:

- 6b. We agree.

CLOSE-OUT PROCESS

Recommendation:

7. We encourage CPDC to perform an evaluation similar to the Prepare a Post Project Performance Review for the purpose of documenting what went well and what did not go so well on the project in an effort to capture best practices and lessons learned for the benefit of future projects. (Ownership: CPDC)

Management Response:

7. We agree, and this was done.

ACCOUNTING

Recommendation:

8. Prepare a final accounting for all projects in an effort to illustrate budget variances and for evaluation of any overruns. (Ownership: CPDC)

Management Response:

8. We agree. CPDC has established a process of final reporting to the Trustees, which includes evaluation of overruns in the post project performance review report, under "lessons learned." There is no need to add a "budget vs. expenditures CPDC 2-7" to this process, as this information was available from the project data workbook submitted with the post project performance report, and then reported in the Completed Projects Report to the Trustees. In addition, we modified FIRMS categories to match completed projects report categories, and can then obtain budget reports from Budget.

June 13, 2005

RECEIVED
UNIVERSITY AUDITOR

JUN 17 2005

THE CALIFORNIA STATE
UNIVERSITY

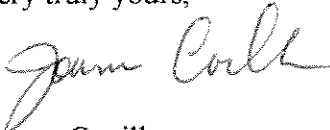
Mr. Larry Mandel
University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4200

Re: Campus Response to Recommendations: KPMG Audit Report on the
Student Housing – Phase I Construction Project,
California State University, Channel Islands

Dear Larry:

Enclosed is the campus response to recommendation 6a of the above-referenced audit report.
The campus has addressed the recommendation.

Very truly yours,



Joanne Coville
Vice President for Finance
and Administration

JC/rt
Enclosure

cc: Richard Rush, President
Deborah Wylie, Associate Vice President
Operations, Planning and Construction

**CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS
STUDENT HOUSING - PHASE I**

MAJOR EQUIPMENT/MATERIALS REVIEW

Recommendation:

- 6a. Obtain copies of all fabrication drawings, shop drawings, samples, materials list, and manufacturer's equipment brochures. (Ownership: CSUCI)

Campus Response:

- 6a. We have obtained the requisite documentation.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

August 8, 2005

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 *Student Housing - Phase I*
Construction Project at California State University, Channel Islands

LONG BEACH

LOS ANGELES

In response to your memorandum of August 8, 2005, I accept the response as submitted with the draft final report on the *Student Housing - Phase I* construction project at California State University, Channel Islands.

MARITIME ACADEMY

CBR/amd

MONTEREY BAY

Enclosure

NORTHRIDGE

POMONA

cc: Ms. Erika Alvord, KPMG

SACRAMENTO

Ms. Joanne M. Coville, Vice President, Administration and Finance

SAN BERNARDINO

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services

SAN DIEGO

Dr. Richard R. Rush, President

SAN FRANCISCO

Ms. Elvyra San Juan, Assistant Vice Chancellor, CPDC

SAN JOSÉ

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

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS