

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,  
POMONA**

**UNIVERSITY VILLAGE – PHASE III**

Final Report

September 6, 2006

**CONSTRUCTION PROJECT EVALUATION**  
**CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA**  
**UNIVERSITY VILLAGE – PHASE III**

September 6, 2006

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

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## EXECUTIVE SUMMARY

### Summary of Findings

Based upon our evaluation, the CSUP University Village Phase III Project was administered consistent with our expectations of a project of this size, scope and complexity. We did not find any significant control or process weaknesses that would expose CSUP 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.

	<b>Observation</b>	<b>Risk</b>	<b>Recommendation</b>
1.	It appears Architectural design work was performed by RBB before an Agreement was formally executed.	Allowing work to be performed without an executed Agreement in place may not sufficiently protect CSUP in case of a dispute.	In the future, work should commence only after an Agreement or Contract has been formally executed.  (Ownership: CSUP)
2.	The Architect's progress billings were not submitted and paid in accordance with the contractual Payment Schedule.	Without consistent payment terms and conditions specified for the CM not-at-risk methodology, the Architect's progress billings may not be submitted and paid in strict accordance with the Agreement.	The existing contractual provisions in the Architectural Agreement should be modified to address the CM not-at-risk delivery methodology.  (Ownership: CPDC)
3.	Due to the CM not-at-risk, multiple prime delivery methodology, there was a significant lag between the contract award dates and the contract execution dates for some of the contracts.	a) CSUP may be liable for bond and insurance costs if work does not commence in a timely manner.  b) CSUP is assuming the role of general contractor under the CM not-at-risk, multiple prime delivery methodology and as such bears the liability for potential trade contractor claims related to cost escalation.	Trade contracts should be bid with the anticipated notice-to-proceed dates consistent with the overall project schedule.  (Ownership: CSUP)
4.	A shortcoming in the existing queries within the PeopleSoft System caused a detail accounting report to contain incomplete information.	Inability to generate detail accounting reports limits access to complete transaction information and may lead to discrepancies in reporting and reconciliation of project costs.	CSUP should troubleshoot the limitations imposed by the current reporting function of PeopleSoft (as it is currently configured) so that sufficient project detail can be generated.  (Ownership: CSUP)

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## INTRODUCTION

### Purpose

KPMG LLP (“KPMG”) was retained by California State University’s (“CSU”) Office of the University Auditor on October 29, 2004 to perform an independent project evaluation of California State University, Pomona’s (“CSUP”) University Village - Phase III 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 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 value to CSU. KPMG identified specific areas within the scope listed below that present the greatest potential for substantive loss or liability for the CSUP University Village – Phase III 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 Process
- 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 engagement did not include technical opinions related to engineering, operations and maintenance.
4. KPMG’s work under this engagement did not include a review, audit or evaluation of financial statements, tax services, or other services of KPMG not listed in this Statement.
5. We have, and will continue to consider the effect of this Engagement on the ongoing, planned and future audits, as required by *Government Auditing Standards* and have determined that this engagement will not impair KPMG’s independence.

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## PROJECT BACKGROUND

The University Village phase III project (“Project”), includes the construction of five three-story infill student housing buildings (approximately 122,600 square feet), a new maintenance building (4,300 square feet), an addition to the existing community center (approximately 5,100 square feet), new infill parking lots, renovation to existing parking lots, demolition of two existing buildings, and new infill site utilities.

### Field Work Overview

The Project was awarded as separate trade contracts rather than one general contractor contract. KPMG judgmentally selected a sample of the largest trade contractors on the Project for our review. During the week of February 6, 2006, KPMG conducted field work at CSUP, along with trade contractors Laurence-Hovenier and Standard Drywall, Inc. The remaining field work was completed during the week of February 22, 2006 with visits to additional trade contractors, including ACH Mechanical, Helix Electric, J.D.C., Inc. KAR Construction, and Ken Harges Plastering.

During field work, KPMG reviewed project records from the following entities involved with the project:

Trade Contractor (HVAC)	ACH Mechanical Contractors, Inc.
Trade Contractor (Electrical)	Helix Electric, Inc.
Trade Contractor (Site Concrete)	J.D.C. Inc.
Trade Contractor (Concrete & Rebar)	K.A.R. Construction, Inc.
Trade Contractor (Lath & Plastering)	Ken Harges Plastering Co., Inc.
Trade Contractor (Rough Carpentry)	Laurence-Hovenier, Inc.
Trade Contractor (Drywall & Insulation)	Standard Drywall, Inc.
Architect	RBB Architects
Construction Management and Inspector of Record (IOR)	ProWest PCM, Inc. (ProWest)
Project Management	CSUP Department of Facilities Planning and Management (FP&M); and CSUP Department of Facilities Building Design and Construction (FBD&C)

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 CM not-at-risk, multiple prime contractor methodology. CSUP elected to execute multiple contracts with trade contractors to maintain more

flexibility and control over construction. This delivery methodology is uncommon at CSU and only in very few situations is it preferred. Concurrence with CPDC is required.

**Timeline**

The design process began in May 2003 with the effective date of the Architect’s agreement. Schematic and preliminary drawings were completed by June, 2003 followed by Board of Trustee approval of the preliminary design in July 2003. The construction work was subsequently bid in four bid packages. Initial bids for bid release 1 exceeded the engineer’s estimate. As a result, all work was value engineered and re-bid to adjust for discrepancies between the engineers estimate and the initial bid amounts. Bid Package 1A included demolition and site work. Subsequent bid packages 2 and 3 included elevators, landscaping and HVAC, among other items. The last bid package, bid release 3, was issued in November, 2003 with bid opening in January, 2004. All trade contractors were selected by February of 2004 followed by the Board of Trustees approval of a bond sale. Construction started in July 2003 and the Project was finished in August 2005. CPDC was involved from the beginning in establishing the CM not-at-risk, multiple prime contractor delivery methodology

**Project Costs**

The entire project was approved by the Board of Trustees at \$28,189,000 including design, construction (housing and parking), furniture, fixtures and equipment, the CPDC administrative fees and contingency. Total Project costs at the time of our audit were \$26,874,439 with open encumbrances of \$1,953,864 as summarized in the table below:

<b>Description</b>	<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
Construction	\$ 22,605,000	\$ 23,379,907	\$ 774,907
Contingency	1,557,000	-	(1,557,000)
Group II Equipment	1,200,000	818,210	(381,790)
Architect and Engineering	1,046,000	1,189,025	143,025
Contract Management	689,000	1,383,636	694,636
Additional Services	1,092,000	103,661	(988,339)
<b>Total</b>	<b>\$ 28,189,000</b>	<b>\$ 26,874,439</b>	<b>\$ (1,314,561)</b>

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## DESIGN COSTS

RBB Architects (“RBB”) provided architectural and engineering services for the Project. A standard CSU Architect/Engineer Agreement in the amount of \$1,046,000 was entered into effective May 20, 2003. The scope of the work included Schematic Design, Design Development, Construction Documents, Bidding, Construction Administration, and Record Drawings. A total of eight Extra Services Agreements (“ESA’s”) in the amount of \$74,953 were executed bringing the total contractual value to \$1,120,953 as outlined in the following table:

Description	Date	Amount
Schematic Design	06/16/03	\$ 209,000
Design Development	06/16/03	146,000
Construction Documents	06/16/03	397,000
Bidding	06/16/03	21,000
Construction Administration	06/16/03	230,000
Record Drawings	06/16/03	43,000
<b>Base Agreement Subtotal</b>		<b>\$ 1,046,000</b>
ESA 1 - Reprographic Services	09/17/03	5,000
ESA 2 - Bridge Design	09/23/03	32,311
ESA 3 - Value Engineering	12/16/03	1,235
ESA 4 - Reprographic Services	03/25/04	5,000
ESA 5 - Review Drawings	02/27/04	3,080
ESA 6 - Water Improvement Redesign	03/23/04	16,307
ESA 7 - Telecom Design	08/12/04	2,300
ESA 8 - Additional Site Visits	10/13/04	9,720
<b>ESA Subtotal</b>		<b>\$ 74,953</b>
<b>Total Agreement</b>		<b>\$ 1,120,953</b>

RBB’s Agreement, ESA’s and associated invoices were obtained from CSUP and reviewed by KPMG. The documents were evaluated for compliance with the terms and conditions set forth by the Agreement to help ensure no over billings had occurred.

The initial RBB Agreement was not signed by CSUP Counsel until June 16, 2003. RBB presented an invoice to CSUP on June 24, 2003 in the amount of \$209,000 representing 100% completion of the Schematic Design Phase for work performed through June 22, 2003. This indicates that work on the Schematic Design phase was initiated prior to formal execution of the Agreement. Discussions with CSUP confirmed that such work occurred prior to CSUP Counsel signing of the Agreement.

***Observation:***

It appears Architectural design work was performed before an Agreement was formally executed.

***Risk:***

Allowing work to be performed without an executed Agreement in place may not sufficiently protect CSUP in case of a dispute.

***Recommendation:***

1. In the future, work should commence only after an Agreement or Contract has been formally executed.

(Ownership: CSUP)

***Campus Response:***

1. We concur. Our project schedules are now inclusive of the time and activities reflecting the entire agreement process including the issuance of the campus' Notice to Proceed (NTP).

Timeline: Completed

We observed two instances where RBB invoiced slightly ahead of the contract payment schedule:

- Per the Consultant Agreement Exhibit B 'Payment Schedule', the Construction Document Phase (\$397,000) is to be billed at 50% (\$199,000), 90% (\$159,000) and 100% completion (\$39,000). However, the phase was invoiced at 50% (\$198,500), 95% (\$178,650) and 100% completion (\$19,850). Section IV.B of Rider A of the Agreement specifies that interim payments during the Construction Document Phase may be paid at the Trustee's discretion upon approval of evidence of services rendered. This statement appears to contradict Exhibit B 'Payment Schedule', which is referenced by Section V.2 of Rider A.
- Also per the Consultant Agreement Exhibit B 'Payment Schedule', the Bidding Phase (\$21,000) is supposed to be invoiced once at 100% completion. Instead, it was invoiced on two separate occasions, \$16,800 (80%) and \$4,200 (100%), for a total of \$21,000.

The overbillings were minor and in aggregate did not have an effect on the overall amount paid to RBB, a better practice is to avoid ambiguities in the Agreement. A multiple prime contracting situation may result in multiple bid packages and as a result, multiple invoices for services rendered may be appropriate.

***Observation:***

The Architect's progress billings were not submitted and paid in accordance with the contractual Payment Schedule.

***Risk:***

Without consistent payment terms and conditions specified for the CM not-at-risk, multiple prime methodology, the Architect's progress billings may not be submitted and paid in strict accordance with the Agreement.

***Recommendation:***

2. The existing contractual provisions in the Architectural Agreement should be modified to address the CM not-at-risk, multiple prime delivery methodology.

(Ownership: CPDC)

***Management Response:***

2. We agree that CM Not at Risk procurement method is not a recommended method of contracting, and advocate this in our training sessions (the most recent in 2005). Accordingly, we will not draft provisions for this type of procurement. SUAM Section 9238 does provide that campuses contact CPDC for assistance (and approval) in drafting provisions for projects with non-standard delivery methods.

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## **CONSTRUCTION BID PROCESS**

The Project involved four separate bid packages including Bid Release 1, 1A, 2, and 3.

- Bid Release 1 solicited contractors for individual trades including steel construction, electrical work, demolition, excavation, paving, masonry and landscaping. Due to discrepancies between the engineers estimated values and bid values, CSUP rejected all bids and made modifications to the scope of work before proceeding with a revised bid.
- Bid Release 1A included site concrete, asphalt paving and site demolition for which separate trade contractors were solicited and successfully retained.
- Bid Release 2 encompassed trade contractor work for the community building, maintenance building, building demolition, landscaping and elevators. Competitive bids were not received for the community building and maintenance building bid packages. As a result, CSUP rejected these bids and made modifications to the scope of work before proceeding with a revised solicitation.
- Bid Release 3 solicited and retained trade contractors for all remaining building work following adjustments to the scope of work based on advice from the Architect and Project Manager.

KPMG reviewed CSUP's bid files and bid process and found them in compliance with SUAM requirements related to pre-bid meetings, advertising for bids, distribution of project plans and specifications, review of bid proposal package, issuing of addenda during bidding, pre-qualification of bidders, obtaining required documentation from the successful bidder, and award of contract, as applicable.

### **Contracting Methodology**

CSUP's reasons for selecting a contracting methodology involving multiple prime contractors stemmed primarily from discussions with the University of California System, who successfully had delivered a housing project under this arrangement. CSUP wanted more flexibility and control over the trade contractors, as the project involved construction in an occupied housing area with accessibility issues and tenant livability concerns. CSUP felt that acting as its own general contractor would allow the Campus this additional flexibility. CPDC was involved in the initial discussions and agreed with CSUP.

KPMG did not find any evidence that the project suffered from the contracting methodology chosen. CSUP committed resources to the project, coordination and oversight occurred on a regular basis and no major out-of-the ordinary contractor delays, claims or cost increases had occurred at the time of our field work.

***Recommendation:***

None

**Trade Contracts**

KPMG reviewed selected contract agreements between CSUP and the trade contractors. The following table shows the bid, award, effective, and executed dates for the trade contractors selected:

<b>Trade Contractor</b>	<b>Bid Date</b>	<b>Award Date</b>	<b>Contract Effective Date</b>	<b>Contract Executed Date</b>
ACH Mechanical	01/21/04	02/18/04	02/17/04	03/18/04
Helix Electric	01/15/04	02/12/04	02/23/04	04/05/04
JDC, Inc.	11/05/03	11/07/03	11/10/03	no date
KAR Construction	01/21/04	01/29/04	02/02/04	04/05/04
Ken Harges Plastering	01/21/04	02/12/04	02/23/04	04/26/04
Laurence-Hovenier	01/15/04	02/12/04	02/23/04	04/05/04
Standard Drywall	01/21/04	02/12/04	02/23/04	06/30/04

On several occasions, a considerable time elapsed between the bid and award dates of the contract and the date the contract was fully executed. This indicates that a staggered bidding for the various trades did not always occur and as a result, several trade contractors committed to costs in advance of being able to commence work. This situation is inherent to the delivery methodology chosen, CM not-at-risk, multiple prime, where sensitivity to the dates of bidding becomes particularly important. CSUP may be liable for bond and insurance costs if the project does not go to award in a timely manner, since it has assumed the role and liability of a general contractor through this delivery methodology. It is also susceptible to trade contractor claims related to cost escalation.

***Observation:***

Due to the CM not-at-risk, multiple prime delivery methodology, there was a significant lag between the contract award dates and the contract execution dates for some of the contracts.

***Risk:***

- a. CSUP may be liable for bond and insurance costs if work does not commence in a timely manner.

- b. CSUP is assuming the role of general contractor under the CM not-at-risk, multiple prime delivery methodology and as such bears the liability for potential trade contractor claims related to cost escalation.

***Recommendation:***

3. Trade contracts should be bid with the anticipated notice-to-proceed dates consistent with the overall project schedule.

(Ownership: CSUP)

***Campus Response:***

3. We concur. Our project schedules are now inclusive of the time and activities reflecting the entire agreement process including the issuance of the campus' Notice to Proceed (NTP).

Timeline: Completed

On two occasions, the first trade contractor invoices were presented to CSUP prior to the execution of the contract. The amounts of the invoices were \$503,363 (Laurence-Hovenier) and \$82,342 (KAR Construction) for a total of \$585,705. However, these amounts were mostly related to stored materials and bond costs, which were represented as legitimately invoiced.

**Subcontractor Compliance**

As trade contractors generally perform their own work, there were few subcontractors employed on the job. In those instances, KPMG found no evidence of inappropriate subcontractor substitutions.

***Recommendation:***

None

## CONSTRUCTION CHANGE ORDERS

The trade contractors retained by CSUP had a total of 54 fully executed change orders in an amount of \$1,716,259 at the time of our field work. An additional 16 change orders were in process of being negotiated and finalized.

KPMG reviewed all fully executed change orders for seven sampled trade contractors including ACH Mechanical, Helix Electric, J.D.C., Inc., KAR Construction, Ken Harges Plastering, Laurence-Hovenier, and Standard Drywall. These trade contractors accounted for 24 change orders totaling \$960,180.

KPMG reviewed the change orders for compliance with signature authority and supporting backup. The signature authority for change order authorization as presented by CSUP is summarized as follows:

Amount	Signature Approval Required
Up to \$20,000	Project Manager/Administrator
Up to \$50,000	Director, FBD&C
Up to \$150,000	Associate Vice President, FP&M
No Limit	Vice President of Administration

- The CSUP presented a clear matrix of the required change order signature authority and explained that the signature approval level was determined by individual line item (or change proposal) within a change order. The 24 change orders reviewed included 104 line items total. Of these line items, three did not appear to follow signature authority, which was not a significant amount.

### Change Order Report Analysis

The CSUP provided a change order log reflecting the initiating source of each change order. The following table summarizes the change order log provided by CSUP reflecting the initiating source of each change order:

Type of change	Amount	% of Total CO	% of Original Contract
4.1 Error in or omission from the contract documents	\$ 575,555	37.89%	2.76%
4.2 Unforeseeable job site condition	304,666	20.06%	1.46%
4.2 Change in the requirements of a regulatory agency	138,216	9.10%	0.66%
4.4 Change originated by the University	503,664	33.16%	2.42%
4.5 Changes in specified work due to the unavailability of specified materials	-	-	-
4.6 Other	(3,080)	-0.20%	-0.01%
<b>Total Change Orders</b>	<b>1,519,021</b>	<b>100.00%</b>	<b>7.29%</b>
Original Contract Amount	20,824,105		
<b>Total</b>	<b>\$ 22,343,126</b>		

Change orders due to Architect errors and omissions exceeded 37% of the total net change order costs; however these errors and omissions comprise less than 3% of the total contract amount, which is not significant.

All but one of the sampled change order files followed the change order mark-up requirements as outlined by the General Conditions. The exception was not significant.

***Recommendation:***

None

**Prevailing Wage Rate**

The majority of the change order work was performed by the trade contractors' own labor forces. As such, we performed a detail review of each contractor's labor rate support. CSUP required each trade contractor to submit a breakdown of labor costs on a labor rate worksheet including base labor rate and burden build up for each change proposal. The use of the labor rate form is required by the contract General Conditions. We reviewed these labor rates and verified them against prevailing wage rates, statutory taxes and worker's compensation insurance and noted no exceptions.

***Recommendation:***

None

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## CONSTRUCTION MANAGEMENT SERVICES

Construction Management services for the Project were provided by ProWest PCM, Inc. (“Pro West”). Three separate Agreements were entered into between CSUP and ProWest. The initial Agreement in the amount of \$23,750 encompassed strategic planning and cost estimation services. The second Agreement, in the amount of \$204,000, involved pre-construction services. The final Agreement, in the amount of \$2,075,000, involved construction management services for 24 months throughout construction. Eight Extra Services Agreements (ESA’s) in the amount of \$597,121 were added to the final Agreement bringing the total amount contracted with ProWest to \$2,899,871.

Description	Date	Amount
Strategic Planning	11/21/02	\$ 23,750
Preconstruction Services	05/20/03	204,000
Construction Management	10/29/03	2,075,000
<b>Base Agreements Subtotal</b>		<b>\$ 2,302,750</b>
ESA 1 - Site Surveying	02/12/04	58,000
ESA 2 - Temporary Water Deposits	08/12/04	2,000
ESA 3 - Student Staff	08/17/04	7,050
ESA 4 - Student Staff	01/10/05	6,700
ESA 5 - Job Site Contracting Services	01/10/05	44,675
ESA 6 - Temporary Lighting, Irrigation	01/28/05	82,317
ESA 7 - Irrigation	05/10/06	313,279
ESA 8 - Additional Site Work Support	11/09/05	83,100
<b>ESA Subtotal</b>		<b>\$ 597,121</b>
<b>Total Agreement</b>		<b>\$ 2,899,871</b>

The ESA’s were issued on CSUP letterhead without a counter signature from ProWest. In some instances we located a proposal for the amount from Pro West. A better practice would be to use the standard CSU ESA form and obtain a signature from ProWest. CPDC is currently addressing this issue by modifying SUAM.

A total of 37 invoices were submitted by Pro West. These invoices clearly indicated what was being billed, contained the required signature authority, and were invoiced and paid in accordance with their respective contract agreements. Final payment on the last two contracts had not been made as of the date of our field work.

***Recommendation:***

None

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## MAJOR EQUIPMENT/MATERIALS REVIEW

The Project consisted of active housing units at the time of KPMG's field work and as a result, equipment and materials were selected partially based on accessibility in order not to disturb the occupants.

Since the Project was a CM not-at-risk, multiple prime contractor project, no detail size and output requirements were available at time of bid. The equipment and materials selected were verified in the field against performance specifications issued, approved submittals, drawings and engineering calculations made available to us.

CSUP allowed full and complete access to drawings, specifications and submittals, including revisions, which were well organized and contained all necessary information.

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

Division	Drawing ID	Brand	Model No./ Capacity	Description
15800	MUA-1	ARES	2,590 CFM	Make-up Air Handler
15400	WH-3	Lochinvar	CFN0990	Water Heater
15800	PAC-2	Trane	YHC072A3RLA18G	Package Gas/Elec. Unit
15800	M-1	Lochinvar	Copper Fin II CFN099	Boiler
07310	n/a	Letner (install)	Asian Red	Asphalt Shingles
07321	n/a	Hanson	Hanson Terracotta	Roof Tile
09650	n/a	Armstrong	Tarkett, various colors	Flooring
16510	n/a	Mel Smith (install)	Special Order	Exterior Light Pole
15200	E-2, E-3	Trane	TT13024C1GGA2	Compressor

The equipment and materials selected conformed to the specifications above, based on a visual inspection of equipment and materials labeling.

***Recommendation:***

None

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## **CLOSE-OUT PROCESS**

KPMG verified project close-out requirements established by the Contract General Conditions and SUAM 9830-9834 were adhered to with the exception of several final change orders, which were still in the process of being negotiated with the trade contractors at the time of our field visit. Several final payments remained outstanding and several contracts were left to be closed out and disencumbered.

CSUP did not utilize the CPDC project close-out checklist, but still followed the requirements outlined by this form. Use of the form is not required to be used by SUAM. Since the Project was in progress at the time of KPMG's field visit, as-built drawings were still being completed.

KPMG reviewed punch list, operating permits, operation and maintenance manuals, warranties, inspection reports, Notice of Completion, and other relevant project close-out documentation, which was filed and retained appropriately at CSUP. No exceptions were noted.

***Recommendation:***

None

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## LIQUIDATED DAMAGES

There were several Notices to Proceeds (“NTP’s”) issued to the many trade contractors on the project. Similarly there were multiple Certificates of Occupancy issued for the many buildings constructed as part of the scope of work. KPMG reviewed a sample of NTP’s and agreed upon contractual completion dates and concluded that the entire Project was completed on time by September 15, 2005 and that no liquidated damages were warranted or had been imposed.

However, CSUP was in discussions with three trade contractors regarding claim settlements at the time of our field visit. They include:

- The Fire Protection Group whose claim for additional compensation is being reviewed by CSU’s Claims Review Board. A resolution was pending at the time of our field work.
- Standard Drywall has submitted a claim for additional compensation due to market condition material price increases, which at the time of our review had been denied by CSUP.
- KAR construction also submitted a claim for additional compensation due to market conditions and material price increases, which at the time of our review had been denied by CSUP.

The trade contractor claims do not represent any extraordinary circumstances or amounts and are expected by CSUP to be settled favorably.

***Recommendation:***

None

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## **ACCOUNTING**

KPMG reviewed the accounting process for the Project with CSUP personnel, including invoicing and the accounts payable process. CSUP's Department of Facilities Planning and Management tracks contractual obligations and expenditures for the trade contractors and consultants on the Project in a fashion similar to that utilized by other Campuses.

CSUP uses PeopleSoft to formally account for its project job costs, commitments and payments. A shortcoming in the existing queries within the PeopleSoft System caused a detail accounting report we requested to review to contain incomplete information. As a result, we were not able to reconcile the transaction level cost detail to the job cost summary report, which provided us with the complete project costs by job cost category. In addition, we could validate only part of the trade contractor and consultant costs against the accounting system. We asked CSUP to resolve the discrepancy and present a reconciliation, but at the time of our field work they were not able to do so.

### ***Observation:***

A shortcoming in the existing queries within the PeopleSoft System caused a detail accounting report to contain incomplete information.

### ***Risk:***

Inability to generate detail accounting reports limits access to complete transaction information and may lead to discrepancies in reporting and reconciliation of project costs.

### ***Recommendation:***

4. CSUP should troubleshoot the limitations imposed by the current reporting function of PeopleSoft (as it is currently configured) so that sufficient project detail can be generated.

(Ownership: CSUP)

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

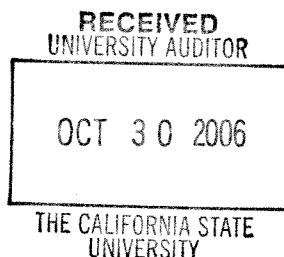
4. We concur. We will prepare queries and reports that will allow us to reconcile the job cost summary reports to the transaction detail level.

Timeline: January 5, 2007



Office of the Vice President  
for Administrative Affairs

October 27, 2006



Mr. Larry Mandel, University Auditor  
Office of the Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802

Dear Mr. Mandel:

**Subject: Campus Response to KPMG Audit Report  
University Village - Phase III Construction Project**

Enclosed is California State Polytechnic's campus response to the KPMG Audit Report on the University Village – Phase III Construction Project. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We have taken the necessary actions to address the report's recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice President of Finance and Administrative Services at 909-869-2008 or [dlabordo@csupomona.edu](mailto:dlabordo@csupomona.edu).

Sincerely,

Edwin A. Barnes, III, Interim Vice President, Administrative Affairs  
Interim Chief Financial Officer

Cc: J. Michael Ortiz, President  
Darwin Labordo, Associate Vice President, Finance & Administrative Services  
Daryl T. Patton, University Auditor  
Michael Sylvester, Associate Vice President, Facilities Planning & Management

Enclosure

/kmh

3801 West Temple Avenue, Pomona, CA 91768 Telephone (909) 869-3020 Fax (909) 869-4541 E-mail [plfarris@csupomona.edu](mailto:plfarris@csupomona.edu)

**CONSTRUCTION PROJECT EVALUATION**  
**CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA**  
**UNIVERSITY VILLAGE – PHASE III**

**DESIGN COSTS**

***Recommendation:***

1. In the future, work should commence only after an Agreement or Contract has been formally executed.

(Ownership: CSUP)

***Campus Response:***

1. We concur. Our project schedules are now inclusive of the time and activities reflecting the entire agreement process including the issuance of the campus' Notice to Proceed (NTP).

Timeline: Completed

**CONSTRUCTION BID PROCESS**

***Recommendation:***

3. Trade contracts should be bid with the anticipated notice-to-proceed dates consistent with the overall project schedule.

(Ownership: CSUP)

***Campus Response:***

3. We concur. Our project schedules are now inclusive of the time and activities reflecting the entire agreement process including the issuance of the campus' Notice to Proceed (NTP).

Timeline: Completed

## **ACCOUNTING**

### ***Recommendation:***

4. CSUP should troubleshoot the limitations imposed by the current reporting function of PeopleSoft (as it is currently configured) so that sufficient project detail can be generated.

(Ownership: CSUP)

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

4. We concur. We will prepare queries and reports that will allow us to reconcile the job cost summary reports to the transaction detail level.

Timeline: January 5, 2007

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

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


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

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

## MEMORANDUM

**Date:** October 26, 2006

**To:** Larry Mandel  
University Auditor

**From:** Richard P. West   
Executive Vice Chancellor & Chief Financial Officer

**Subject:** Audit Report  
University Village, Phase III  
California State Polytechnic University, Pomona

RECEIVED  
UNIVERSITY AUDITOR

OCT 27 2006

THE CALIFORNIA STATE  
UNIVERSITY

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

RPW:JRC:bn

Attachment

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

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

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles  
Maritime Academy

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego

San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus

**CONSTRUCTION PROJECT EVALUATION**  
**CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA**  
**UNIVERSITY VILLAGE – PHASE III**

**DESIGN COSTS**

*Recommendation:*

2. The existing contractual provisions in the Architectural Agreement should be modified to address the CM not-at-risk, multiple prime delivery methodology.

(Ownership: CPDC)

*Management Response:*

2. We agree that CM Not at Risk procurement method is not a recommended method of contracting, and advocate this in our training sessions (the most recent in 2005). Accordingly, we will not draft provisions for this type of procurement. SUAM Section 9238 does provide that campuses contact CPDC for assistance (and approval) in drafting provisions for projects with non-standard delivery methods.

Note: a similar recommendation was made in 2001 on the San Luis Obispo Sports Complex project. We continue to train campuses in our CM at Risk training sessions not to utilize the CM Not at Risk procurement method.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

November 28, 2006

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed".

FULLERTON

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *University Village – Phase III*  
Construction Project at California State Polytechnic University,  
Pomona

LONG BEACH

LOS ANGELES

In response to your memorandum of November 28, 2006, I accept the response as submitted with the draft final report on the *University Village – Phase III* construction project at California State Polytechnic University, Pomona.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

cc: Ms. Erika Alvord, KPMG

SACRAMENTO

Dr. Edwin A. Barnes, III, Interim Vice President, Administrative Affairs/  
Interim Chief Financial Officer, CSPU Pomona

SAN BERNARDINO

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services

SAN DIEGO

Dr. J. Michael Ortiz, President, CSPU Pomona

SAN FRANCISCO

Ms. Elvyra San Juan, Assistant Vice Chancellor, CPDC

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

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS