

**CALIFORNIA STATE UNIVERSITY,  
CHANNEL ISLANDS**

**STUDENT HOUSING PHASE II**

Final Report

April 30, 2008

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

April 30, 2008

*Prepared by:*



*KPMG LLP*

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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 Student Housing Phase II project at California State University, Channel Islands (CSUCI) was administered consistent with our expectations of a project of this size, scope, and complexity.

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

	<b>Observation</b>	<b>Risk</b>	<b>Recommendation</b>
1.	Professional services were performed prior to the execution of a written contractual agreement with one of the architects on the Project.	Work performed without an executed contract may result in a future dispute with the architect due to the lack of formally defined and agreed to scope of work, pricing arrangement and terms and conditions.	In the future, contractual agreements should be fully executed and effective prior to any work being performed on a project.  (Ownership: CSUCI)
2.	The contractor did not submit a sufficient Expanded List of Subcontractors in a timely manner.	Without obtaining all relevant and required information about the subcontractors in a timely manner, CSUCI is at risk of violations of Public Contract Code.	In the future, care should be taken to help ensure complete subcontractor information is obtained, properly documented and retained on a timely manner.  (Ownership: CSUCI)
3.	Mark-up was not appropriately calculated as required by the Design/Build Contract General Conditions.	CSUCI may be at risk of overpayment if mark-up calculations are not consistently calculated per the Design/Build Contract General Conditions.	3a. On future projects, CSUCI should take additional care in reviewing contractor mark-up calculations to help ensure their accuracy.  3b. CSUCI should review the change order mark-up calculations on the Project and determine if any adjustments to the HMM contract are required.  (Ownership: CSUCI)

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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 and subsequent amendment dated August 16, 2007 to perform an independent project evaluation of California State University, Channel Islands Student Housing Phase II 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 practices.

To the extent they were uncovered as part of our work, this report provides conclusions and recommendations addressing necessary process improvement and recovery of project costs. 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 prior years, we also included additional items that we believe may provide benefit to CSU. This includes assessing methodologies utilized in verifying reasonableness of contractor change requests, help ensuring that a meaningful submittal review procedures were followed, and a review of project accounting and cost reporting. KPMG identified specific areas within the scope listed below that present the potential for substantive loss or liability for CSUCI’s Student Housing Phase II project. The various scope categories are outlined in CSU’s request for proposal, dated July 14, 2004 and KPMG’s proposal, dated July 27, 2004 and contains the following sections:

- Project Background
- Design Cost
- Construction Bid Process
- Construction Change Orders
- Project Management or Inspection Services
- Major Equipment and 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, in our opinion. The work performed by KPMG was conducted in accordance with our aforementioned methodology, but is not limited to, the following tasks:

- Examine financial records, reports, written CSU procedures, CSU contract documents and other material related to the project and compare current practices and procedures with CSU requirements and leading 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.

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

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## **PROJECT BACKGROUND**

The California State University, Channel Islands (“CSUCI”) Student Housing Phase II Project (“the Project”) originally began as a project to design and construct the second phase of student housing on the CSUCI campus under a design-build delivery approach. The scope of work included new housing construction as well as demolition and renovation of existing structures to provide suite style housing, laundry rooms, a computer room, meeting rooms as well as landscaping of the courtyards.

In addition to the student housing scope of work, the dining commons needed expansion. This expansion became part of the Student Housing Phase II Project costs as it was added through the change order process on May 7, 2007. This portion of the project involved demolition, renovation and new construction to provide a serving area as well as adding roughly 270 new seats to the existing 52.

From February 4 through February 8, 2007, KPMG conducted fieldwork at the CSUCI campus. During fieldwork, KPMG reviewed records from the following entities involved with the Project:

Architect for the Dining Commons Design-Builder	Widom Wein Cohen O’Leary Trasawa Valeo/HMH – Corcoran & Corcoran Architects
Project Management and Administration	CSUCI Office of Facilities Planning and Construction Services

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

### **Delivery Methodology**

A design-build, lump sum contracting methodology was selected to deliver this project for completion for the fall 2007 term.

### **Timeline**

Subsequent to advertising the RFP in late 2005, CSUCI opened proposals from potential design-builders on January 10, 2006. Valeo/HMH – Corcoran & Corcoran Architects (“HMH”), the winning proposing team, was awarded the design-build contract on January 13, 2006. The Project began on February 13, 2006 with the issuance of the Notice to Proceed.

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PROJECT BACKGROUND

HMH contracted with Corcoran & Corcoran Architects for the design of the student housing portion of the project. CSUCI later retained Widom Wein Cohen O'Leary Trasawa ("WWCOT") to design the dining commons expansion. The construction for the dining commons portion of the work was added to the project through the change order process on May 7, 2007.

Both the student housing and the dining commons received a Certificate of Occupancy on August 16, 2007 and their respective Notice of Completions on September 28, 2007.

**Project Costs**

The Project budget in the amount of \$38,664,000 was approved at the January 31 – February 1, 2006 Chancellor's Office Board of Trustees Committee on Campus Planning, Buildings, and Grounds meeting. At the time of KPMG's fieldwork there were \$36,523,280 in commitments on the project, which includes \$33,682,217 for the student housing scope of work and \$2,841,063 for the dining commons additional scope. CSUCI had incurred \$35,686,817 in actual costs on the project. This Project is projected to finish below the approved budget by \$2,140,720. The following table represents the project budget and costs:

Description	Budget (2-7)	Student Housing	Dining Commons	Actual Costs	Variance (Budget - Commitments)
		Commitments	Commitments		
Construction	\$ 29,195,000	\$ 29,412,713	\$ 2,432,909	\$ 31,804,129	\$ (2,650,622)
Architect and Engineering	1,780,000	1,096,766	290,858	1,334,284	392,376
Contract Management	2,044,000	961,074	-	796,609	1,082,926
Contingency	1,805,000	279,664	-	279,664	1,525,336
Required Additional Services	862,000	-	-	-	862,000
Group II Equipment	2,978,000	1,932,000	117,296	1,472,131	928,704
<b>Total</b>	<b>\$ 38,664,000</b>	<b>\$ 33,682,217</b>	<b>\$ 2,841,063</b>	<b>\$ 35,686,817</b>	<b>\$ 2,140,720</b>

**Recommendation:**

None

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## **DESIGN COSTS**

Two architects performed work for this project; Corcoran & Corcoran Architects, and WWCOT.

Corcoran & Corcoran Architects performed the design work for the student housing portion of the Project and was contracted directly with HMH. No contractual relationship existed between CSUCI and Corcoran & Corcoran Architects on this Project due to the design-build delivery methodology. As a result, KPMG did not perform a CSU contract review for the design of the student housing portion of this Project.

WWCOT was retained by CSUCI to perform architectural and engineering services for the dining commons portion of the Project. A standard CSU Project Architect/Engineer Agreement in the amount of \$199,000 was executed on August 28, 2006 between CSUCI and WWCOT. Extra Service Agreements (“ESA’s”) in the amount of \$90,958 were subsequently issued bringing the total revised contract value to \$290,858.

During the course of our review, KPMG noted the first invoice from WWCOT in the amount of \$37,040 was for professional services rendered through July 31, 2006, and the second invoice in the amount of \$30,187 was for professional services rendered through August 31, 2006. All but four days of this work was performed prior to the formal execution of the contractual agreement with WWCOT.

### ***Observation:***

Professional services were performed prior to the execution of a written contractual agreement with one of the architects on the Project.

### ***Risk:***

Work performed without an executed contract may result in a future dispute with the architect due to the lack of formally defined and agreed to scope of work, pricing arrangement and terms and conditions.

### ***Recommendation:***

1. In the future, contractual agreements should be fully executed and effective prior to any work being performed on a project.

(Ownership: CSUCI)

***Campus Response:***

1. The campus acknowledges that one of the architects performed work prior to the execution of the written contractual agreement. Due to scheduling pressure, the campus was forced to direct the architect to perform work while the agreement was being executed. In the future, the campus will ensure that contractual agreements have been fully executed before the service providers begin work.

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## **CONSTRUCTION BID PROCESS**

The construction bid process for the Project was administered following normal CSU procurement process through CSUCI's office of Planning Design and Construction ("PDC"). CSUCI advertised inviting interested parties to submit Statements of Qualifications for the Project in late 2005. Five firms responded to the request: Turner - Fields Devereaux; Amoroso Construction - Bassenian Lagoni Architects; Barnhart, Inc. - Architects Mosher; Drew, Watson and Ferguson, PCL - Danielian Associates; and HMH. CSUCI determined all five firms were qualified and invited them to bid on the Project.

Several of the qualified firms expressed concerns about the Project including a much too condensed bid period, a too low project budget cap at \$23 million, and excessive liquidated damages. In an attempt to entice more bidders, the bid period was extended, the budget cap on the project was increased to \$28 million, and the liquidated damages were altered to be more favorable to the contractors for a few weeks beyond the contracted completion date. These changes occurred in Addendum 2, which was one of five addenda issued. The additional addenda answered questions from the potential proposers, revised specifications and drawings, and changes forms for submission.

On January 10, 2006 cost and technical proposals were received and opened by CSUCI. Despite the efforts to entice additional bidders, proposals were received from only two teams, Barnhart, Inc. - Architects Mosher and HMH. After the technical proposals were received, an Evaluation Board completed a review of the proposals to determine each proposing firm's technical quality points.

On January 13, 2006 the cost proposals were publicly opened, matched to the quality point scores, and calculations were performed in accordance with criteria stated in the Section 24 of the Information for Proposers to establish the cost per unit of quality for each proposing team. HMH was the apparent successful proposing team receiving 846 quality points, proposing a base bid of \$24,950,000, which calculated to \$29,492 per quality point ranking. In comparison, Barnhart, Inc. - Architects Mosher proposed a base bid of \$28,000,000, received 744 quality points and earned a \$37,634 per quality point ranking. As a result, HMH was awarded the contract and the Project began on February 13, 2006 with the issuance of the Notice to Proceed.

KPMG reviewed CSUCI's proposal files and design-build solicitation process on a sample basis and found the project administrative team in compliance with requirements related to pre-qualification, pre-proposal meeting, advertising, distribution of Project conceptual documentation, review and analysis of proposal package, and issuing of addenda during the proposal solicitation process.

One of the standard forms contained in the solicitation package and required to be submitted by the proposing firms is the Expanded List of Subcontractors. HMH signed and

submitted this form with its proposal as required, but the form was blank as no trade subcontractors had been retained or solicited at the time of bid. The design would be completed and construction bids would be solicited at a later date. According to SUAM Section 9822, the Expanded List of Subcontractors form is required to be submitted for a design-build project by the design-builder as soon as the subcontractors were selected. The form provides a listing of subcontractors pursuant to Public Contract Code requirements and should contain the names and addresses of the subcontractors, verification of license, insurance information, and include the subcontractors' relationship to the design-builder.

HMH provided two informal lists of subcontractors to CSUCI. One list contained subcontractors working on the student housing portion of the Project and the other list contained subcontractors working on the dining commons expansion. Both lists contained the names and addresses of the subcontractors who performed work on the respective portions of the work. The lists were dated October 2007, when the project was significantly under way, and lacked the information regarding the verification of the subcontractor licenses, insurance, and the subcontractor's relationship to the design-builder, as required.

***Observation:***

The contractor did not submit a sufficient Expanded List of Subcontractors in a timely manner.

***Risk:***

Without obtaining all relevant and required information about the subcontractors in a timely manner, CSUCI is at risk of violating of Public Contract Code.

***Recommendation:***

2. In the future, care should be taken to help ensure complete subcontractor information is obtained, properly documented and retained in a timely manner.

(Ownership: CSUCI)

***Campus Response:***

2. This project was delivered by the Design/Build delivery method. The contractor submitted subcontractor information throughout the project. The contractor, however, did not submit bonding information as required for the Expanded List. The campus will ensure that Design/Build contractors also submit Expanded List of Subcontractors.

**Subcontractor Substitution**

Inquiry of CSUCI and HMH as well as comparison of the list of subcontractors to the HMH's cost information revealed no evidence of subcontractor substitutions on the Project.

***Recommendation:***

None

## CONSTRUCTION CHANGE ORDERS

Fifteen construction change orders totaling \$6,533,090 were executed on the Project. The first seven change orders were exclusively for the student housing portion of the Project. Change Order 8 in the amount of \$2,107,589 added the construction of the dining commons expansion to the Project. The remaining change orders related to the student housing portion of the work, with the exception of Change Order 11, which related to the dining commons.

The following table summarizes the executed change orders:

Change Order	Description	Date	Amount
1	Install handicap ramp, gypcrete crawl space, fire access slab modification	6/30/2006	\$ 1,075,691
2	Install site telecom distribution, data port to wireless, power for lavatories	7/5/2006	271,767
3	Change Romex to Flex conduit, delete lavatory door units, ADA floor drains	9/21/2006	287,032
4	Relocate Switchgear to N. Side of Fire Access road, replace fire bridge roof	11/2/2006	245,950
5	Relocate Steam line to support project, additional fence and electronic gates	11/20/2006	438,964
6	Add "CL" keypad locks and "Cobra" keypad locks, add steam heat	12/24/2006	670,492
7	Extend the contract completion date with an addition of 17 days	1/18/2007	-
8	Dining Commons addition pursuant to quote	5/7/2007	2,107,589
9	Route Data/Telecom across south quad, add new roof to existing buildings	5/7/2007	345,795
10	Revised carpet pattern and flooring transition, true divided light windows	7/18/2007	10,488
11	Dining Commons light fixture, additional excavation and backfill	8/20/2007	87,778
12	Delta 4 changes to electrical, lighting for student housing, telecom system	9/6/2007	706,215
13	Exterior lighting additions, new conduit reroute, additions to landscape	11/21/2007	115,119
14	Aruba wireless access point locations, delta 4 changes to electrical, various	11/21/2007	170,209
15	Extend the contract completion date with an addition of 75 days	11/21/2007	-
<b>Total</b>			<b>\$ 6,533,090</b>

The dining commons expansion consisted of a portion of work physically separate from the student housing Project. However, the need to expand the dining commons was considered a direct result of the student housing portion of the work. As a result, the construction of the dining commons expansion was not competitively bid, but rather added as a change order to the existing HMM contract and paid for with Student Housing Phase II funds.

Cognizant of the need to comply with Public Contracting Code, the CSUCI conducted discussions with CPDC regarding whether or not to bid the dining commons expansion as a separate construction Project, or to add it as a change order to the existing HMM student housing contract. It was ultimately decided due to time constraints and the interdependence of the two projects, the dining commons could be added as a change order without violating SUAM. The arrangement required HMM to obtain at least three bids for each trade for the dining commons portion of the project and not self-perform any trade scope unless otherwise approved by the CSUCI.

KPMG reviewed the bids submitted with Change Order 8 and found not all trades received three bids, but at least three bids were solicited and the bid information was provided to CSUCI as required.

KPMG performed signature testing on the change orders to confirm required signatures per the signature authority established in the Capital Outlay Management Plan Delegation of Authority was present, and found the signature authority was maintained and adhered to satisfactorily.

Eleven line items from the fifteen executed change orders were judgmentally sampled and tested. KPMG reviewed the supporting documentation, subcontractor cost quotes, and independently verified the amount of markup allowed per the Design/Build Contract General Conditions Section 37.01. KPMG calculated a \$33,028 overcharge on Change Order 8. This variance was due to two primary causes: 1) HMM inappropriately charged markup on the subcontractor's markup, when HMM's mark-up should be based on subcontractor's direct costs only; and 2) HMM inappropriately charged markup on extended overhead general conditions costs, when mark-up by definition is supposed to include General Conditions costs.

In addition to these overcharges, KPMG also calculated markup that was insufficiently charged on other change orders.

***Observation:***

Mark-up was not appropriately calculated as required by the Design/Build Contract General Conditions.

***Risk:***

CSUCI may be at risk of overpayment if mark-up is not calculated per the Design/Build Contract General Conditions.

***Recommendation:***

- 3a. On future projects, CSUCI should take additional care in reviewing contractor mark-up calculations to help ensure their accuracy.
- 3b. CSUCI should review the change order mark-up calculations on the Project and determine if any adjustments to the HMM contract are required.

(Ownership: CSUCI)

***Campus Response:***

- 3a. The mark-up was not calculated per the Design/Build Contract General Conditions for one change order. This was a large change order (value approximately \$2 million). Before adding the scope to the contract, the campus directed the contractor to obtain at least three bids for each trade and vendor. In the bidding process, it was not feasible to ask the trade bidders to use the overhead and profit percentages specified in the Contract General Conditions, and identify the subcontractor mark-ups. To calculate the contractor mark-up, the campus used mark-ups specified in the Contract General Conditions over the total bid amount for each subcontractor. The campus did not separate the direct costs and the mark-up for each subcontractor. In the future, the campus will ensure that the standard change order summary and subcontractor change order summary forms are used to calculate all change orders.
- 3b. In this particular case, the campus believes that the campus received the best value by undergoing a bidding process. Experience would suggest that the bidders used a much lower mark-up than the mark-ups allowed by the General Conditions for change orders. In any case, the campus had agreed with the contractor that the most efficient way of determining contractor mark-ups would be to use the lump-sum bid values from each subcontractor, instead of arbitrarily trying to separate the subcontractor mark-up and direct costs. Therefore, the campus is of the opinion that contract adjustments are not necessary.

**Change Order Report Analysis**

CSU has historically considered change order costs incurred due to errors and omissions by the architect of up to 3% of the initial award construction cost as falling within the architect's 'standard of care'. However, as costs for errors and omissions rise above 3% of the initial award for construction costs the trustees begin to consider actions to recover damages.

CSUCI provided a spreadsheet with the amounts and classifications of various change order line items for the Project. Errors and omissions were tracked by CSUCI in Prolog, an industry standard reporting tool, under the classification 4.1. Errors were appropriately distinguished from omissions.

CONSTRUCTION CHANGE ORDERS

The following table represents the errors and omissions data as calculated by KPMG:

Class	Type of Change	Amount	Percent of Total CO	Percent of Original Contract
4.1	Error in the contract documents	\$ 26,982	0.4%	0.1%
4.1	Omission from the contract documents	345,830	5.3%	1.4%
4.2	Unforeseeable job site condition	286,708	4.4%	1.1%
4.3	Change in the requirements of a regulatory agency	246,667	3.8%	1.0%
4.4	Change originated by the University	5,490,667	84.0%	22.0%
4.5	Changes in specified work due to the unavailability of specified materials	-	0.0%	0.0%
4.6	Other	136,237	2.1%	0.5%
<b>Total Change Orders</b>		<b>\$ 6,533,090</b>	100.0%	26.2%
Original Contract Amount		\$ 24,950,000		
<b>Total</b>		<b>\$ 31,483,090</b>		

Based on the information provided, the majority of the change orders resulted from CSUCI initiated changed. Change orders attributable to errors are calculated to 0.1% of the original contract value and omissions are calculated to 1.4% of the original contract value. This is less than the 3% threshold both individually and in aggregate. As such, no action to recover damages is warranted.

***Recommendation:***

None

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## **CONSTRUCTION MANAGEMENT SERVICES**

This Project was managed by PDC at CSUCI. No outside construction management firm was utilized for the Project. Additionally, all inspections were performed by a CSUCI employee. No outside firm was retained as Inspector of Record. As a result, no testing of construction management or inspection consulting contracts was performed. CSUCI did not enter into any other consultant agreement of a significant value.

***Recommendation:***

None

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## MAJOR EQUIPMENT/MATERIALS REVIEW

KPMG selected and reviewed a sample of materials and equipment based on construction cost and accessibility to the installed items at the building location. As this Project was a functional facility at the time of KPMG's fieldwork, consideration was given to equipment and materials located in occupied areas in order not to interrupt student housing residents.

CSUCI provided access to drawings, specifications, and submittals. The equipment and materials located in the field were compared to submittals approved by the architect and/or engineer and were verified against performance specifications, submittals, and drawings.

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

Division	Brand	Model No./ Capacity	Description
15160	Bell & Gossett	1510-3E / 225 GPM, 100 TDH (ft), 68% min eff, 1750 RPM, 15HP, 208/230V, PH 3, 60 HZ	Hot water pump
14200	Custom Republic Built	2500 capacity hydraulic	Elevators
16428	Square D (enclosure)	22347861-007	Switchgear
10801	Lasco	2603-30	Bathtubs
5120	Custom	Custom	Metal Stairs
07320	US Tile	Tile to match existing	Roofing Tile
08110	Custom	Not Available	Metal doors and frames
06402	Custom	Custom	Millwork
15010	Carrier	24ABR342A300 / CU-12#205 208-230V 60	Air Conditioning Unit

The equipment and materials observed in the field conformed to the specified requirements, specifications and submittals, based on a visual inspection of equipment labeling, and comparison to physical materials samples provided and approved by the architect.

***Recommendation:***

None

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## **CLOSE-OUT PROCESS**

A Conditional Certificate of Occupancy issued on July 31, 2007 allowed Resident Assistants (“RA’s”) to occupy the student housing to prepare it for the incoming students. On August 16, 2007 the students were permitted to occupy the student housing as the unconditional Certificate of Occupancy was issued.

The dining commons expansion portion of the project also received a Certificate of Occupancy on August 16, 2007. The final Notice of Completion was issued for both the student housing and dining commons on September 28, 2007 after the punch list was complete, training and operation and maintenance manuals were provided, and various other close-out items were complete.

KPMG reviewed operation and maintenance manuals, warranties, punch list, operating permits, pre-final and final inspections, food program inspections, as-built drawings and other relevant project close-out documentation for compliance established by the contract General Conditions and SUAM. Nothing came to KPMG’s attention indicating any discrepancies with the close-out process.

The CSU’s standard close-out checklist was not used to track close-out items. The Construction Management Procedures Manual, Section 31-Notice of Completion states: “Concurrent with the filing of the Notice of Completion, the Project Close-out Checklist and Certification of Completion must be executed with a copy in the file.” Similarly, SUAM 9792 discussed the use of a Project close-out checklist.

***Recommendation:***

None

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## **LIQUIDATED DAMAGES**

The Notice to Proceed established February 13, 2006 as start of the Project, and June 28, 2007 as the contracted Project completion date. Time was of the essence for the Project as the student housing and expanded dining commons were needed prior to the start of the fall term 2007. As a result, liquidated damages were set at \$2,000 per consecutive calendar day for the student housing portion of the Project between June 28, 2007 and August 15, 2007, unless occupancy was obtained. The amount assessed increased to \$6,000 per consecutive calendar day from August 15 until completion of the Project, unless occupancy was obtained.

Change Order 7 extended the contract term by 17 days. Change Order 8 added the dining commons expansion to the scope of work. Liquidated damages for the dining commons expansion were set at \$1,000 per calendar day beyond substantial completion, per the language on Change Order 8.

On July 31, CSUCI took occupancy of the student housing and the dining commons was substantially complete. The remaining close-out items were completed and the unconditional Notice of Completion was filed with the County Recorder's office on September 28, 2007. Per the Design/Build General Conditions Section 39.01, the Notice of Completion establishes the official completion date related to liquidated damages.

Section 38.02 of the Design/Build Contract General Conditions reduces liquidated damages to \$500 or half of the originally stipulated amount based on occupancy and ability to use the majority of the Project for its intended purposes. Based on occupancy and ability to use as of July 31 and reduced liquidated damages, total liquidated damages are calculated to \$91,000.

CSUCI was pleased they were able occupy the building as required in time for the fall term. Although liquidated damages could be calculated, it was not CSUCI's intention of assessing liquidated damages based on occupancy and ability to use on July 31, 2007.

A final settlement was executed as Change Order 15 allowing 75 additional contract days, bringing the revised contract completion date to September 28, 2007. This revision established the date of contract completion as the date of the Notice of Completion.

***Recommendation:***

None

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## ACCOUNTING

Accounting information for the project is contained in two separate systems: Prolog and PeopleSoft. PeopleSoft is the main campus accounting system and Prolog is a construction management software that PDC uses to help manage their capital projects and track project costs.

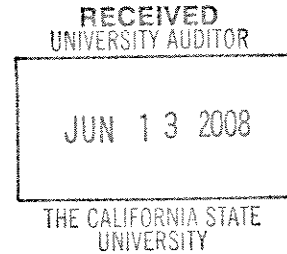
Prolog contained project budgeting, contractual obligations, and billing information as well as other project information for both the student housing and the dining commons portions of the project. KPMG obtained payment information for the student housing and dining commons from the PeopleSoft system and created reconciliation between the amount billed as presented in Prolog, and the payment information contained in PeopleSoft.

KPMG traced physical invoices and contractual obligations from the WWCOT, and HMH to the entries in the workbooks provided by CSUCI from the PeopleSoft system. A sample of invoices was tested for appropriate approvals prior to payment. No exceptions were noted.

***Recommendation:***

None

June 13, 2008



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

Dear Larry:

On behalf of President Rush, I am submitting the campus response to the recommendations of the Construction Project Evaluation, California State University Channel Islands, Student Housing Phase II. This response has also been forwarded via email to [adouglas@calstate.edu](mailto:adouglas@calstate.edu).

Please contact me for additional information and follow up.

Very truly yours,



Joanne Coville  
Vice President for Finance  
and Administration

JC/rt  
Enclosure

cc: Richard R. Rush, President  
Deborah Wylie, Associate Vice President, Operations, Planning & Construction  
Dave Chakraborty, Director of Planning, Design & Construction

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

**DESIGN COSTS**

***Recommendation:***

1. In the future, contractual agreements should be fully executed and effective prior to any work being performed on a project.

(Ownership: CSUCI)

***Campus Response:***

1. The Campus acknowledges that one of the architects performed work prior to the execution of the written contractual agreement. Due to scheduling pressure, the Campus was forced to direct the architect to perform work while the agreement was being executed. In the future, the Campus will ensure that contractual agreements have been fully executed before the service providers begin work.

**CONSTRUCTION BID PROCESS**

***Recommendation:***

2. In the future, care should be taken to help ensure complete subcontractor information is obtained, properly documented and retained in a timely manner.

(Ownership: CSUCI)

***Campus Response:***

2. This project was delivered by Design-Build delivery method. The contractor submitted subcontractor information throughout the project. The contractor, however, did not submit bonding information as required for the Expanded List. The Campus will ensure that Design-Build contractors also submit Expanded List of Subcontractors.

## **CONSTRUCTION CHANGE ORDERS**

### ***Recommendation:***

- 3a. On future projects, CSUCI should take additional care in reviewing contractor mark-up calculations to help ensure their accuracy.
- 3b. CSUCI should review the change order mark-up calculations on the Project and determine if any adjustments to the HMH contract are required.

(Ownership: CSUCI)

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

- 3a. The markup was not calculated per the Design/Build Contract General Conditions for one Change Order. This was a large Change Order (value approximately \$2 million). Before adding the scope to the contract, the Campus directed the contractor to obtain at least three bids for each trade and vendor. In the bidding process, it was not feasible to ask the trade bidders to use the OH&P percentages specified in the Contract General Conditions, and identify the subcontractor markups. To calculate the contractor markup, the Campus used markups specified in the Contract General Conditions over the total bid amount for each subcontractor. The Campus did not separate the direct costs and the markup for each subcontractor. In the future, the Campus will ensure that the standard change order summary and subcontractor change order summary forms are used to calculate all change orders.
- 3b. In this particular case, the Campus believes that the Campus received the best value by undergoing a bidding process. Experience would suggest that the bidders used a much lower markup than the markups allowed by the General Conditions for change orders. In any case, the Campus had agreed with the contractor that the most efficient way of determining contractor markups would be to use the lump-sum bid values from each subcontractor, instead of arbitrarily trying to separate the subcontractor markup and direct costs. Therefore, the Campus is of the opinion that contract adjustments are not necessary.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

July 24, 2008

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, appearing to read "Charles B. Reed", is written over the printed name of the Chancellor.

FULLERTON

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Student Housing Phase II*  
Construction Project at California State University, Channel Islands

LONG BEACH

LOS ANGELES

In response to your memorandum of July 24, 2008, I accept the response as submitted with the draft final report on the *Student Housing Phase II* construction project at California State University, Channel Islands.

MARITIME ACADEMY

MONTEREY BAY

CBR/jt

NORTHRIDGE

Enclosure

POMONA

cc: Ms. Erika Alvord, KPMG

SACRAMENTO

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

SAN BERNARDINO

Ms. Colleen Nickles, Assistant Vice Chancellor, Financial Services

SAN DIEGO

Dr. Richard R. Rush, President, CSUCI

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