

**CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE**

UNIVERSITY STUDENT UNION RENOVATION PROJECT

Final Report

September 2, 2005

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
UNIVERSITY STUDENT UNION RENOVATION PROJECT

September 2, 2005

Prepared by:



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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 Northridge (“CSUN”) University Student Union Renovation Project is being administered consistent with governing Trustee policies and procedures. No significant control or process weaknesses exposing CSUN to unnecessary risks came to our attention during our evaluation. We did, however, observe some minor control and process weaknesses, which should be addressed.

Our observations, associated risks and recommendations are outlined below:

	Observation	Risk	Recommendation
1. & 2.	The Architect performed and was paid for services without an approved ESA in place.	Directing the Architect to perform work without an executed ESA puts CSUN at contractual risk. In addition, allowing vendors to get paid without an ESA or other contractual agreement in place may result in overpayment.	1a. CPDC should formalize dollar thresholds for when the Architect may commence work without an executed ESA. CPDC should also establish a reasonable time frame within which an ESA must be executed. 1b. CPDC should ensure that Campuses understand the ESA process and the requirements for proceeding with work where no ESA can reasonably be executed beforehand. (Ownership: CPDC) 2. CSUN should only process invoices with an approved and executed contractual agreement or ESA in place for the invoiced amount. CSUN should implement a process to ensure this occurs in the future. (Ownership: CSUN)
3.	The Contractor performed a subcontractor substitution without formally informing CSUN or receiving a letter of approval.	Augmenting subcontractor work forces without following established guidelines may be in violation of governing rules and regulations.	3. CSUN should formalize this instance of augmentation and determine if any further action against Ford is warranted. (Ownership: CSUN)

EXECUTIVE SUMMARY

	Observation	Risk	Recommendation
4.	Architect or Inspector recommendation for approval was not obtained by CSUN for change orders or contractor invoices.	Inadequate authorization of change orders may lead to payments that do not agree to Architect's design or observations made by the inspector or construction manager.	<p>4a. On future contracts, adhere to mandated signature requirements on change orders.</p> <p>4b. Solicit formal recommendations for approval by the Architect and/or Inspector of Record and/or Construction Manager for invoices.</p> <p>(Ownership: CSUN)</p>
5.	CSUN's contractual obligation with the Inspector of Record was closed out late and when completed, an unsuitable form was used.	Open contracts expose CSUN to continued contractual obligations and may retain funds encumbered unnecessarily. Closing a contract agreement late or using incorrect forms does not conform to Trustee Policy.	<p>On future contracts, CSUN should close out and disencumber funds in a timely manner.</p> <p>An appropriate form as recommended by CPDC should be used for this purpose, such as an ESA or Amendment.</p> <p>CSUN should track work performed by vendors in a manner allowing for CSUN to determine whether or not invoices remain outstanding.</p> <p>(Ownership: CSUN)</p>

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, Northridge’s University Student Union Renovation 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 and Trustee policy.

This report provides conclusions and recommendations addressing potential recovery of project costs and process improvements to the extent they were uncovered as part of our work. 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 tasks we believe may provide value to CSU. KPMG identified specific areas within the scope listed below that present potential for substantive loss or liability for the CSU Northridge’s University Student Union Renovation 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 highest 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 CSU requirements;
- 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, helping to assure 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 the above methodology.
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

The original scope of work for the University Student Union at CSUN comprised extensive remodeling, building addition, and site work in order to meet requirements set forth by a Student Referendum approved in May, 2000. The original project budget, including design and construction, was \$14,000,000. Project design documents and construction bids were completed by August 29, 2002, followed by the construction bid process. The lowest bid of \$12,750,000 exceeded the construction budget by approximately \$1.4M, or more than 10%. This required consideration of potentially redesigning the Project, in accordance with contractual provisions with the Architect.

After undertaking additional analysis, the CSUN project team determined that in order to provide the scope elements included in the Student Referendum, a major change in the Project design concept was required. The CSUN and the Architect agreed that the best approach was to redesign the Project in two separate and consecutive phases, Phase I (Renovation) and Phase II (New HUB Building). The objective of the two-phase approach was to group all of the demolition and renovation work into the first phase, thus making the second phase of new construction more attractive from a bid standpoint.

This review covers Phase I only, as Phase II still is in its early stages of construction.

Field Work Overview

During the week of April 18 – 22, 2005, KPMG conducted its field work and reviewed project records from the following entities involved with the Phase I project:

General Contractor	Ford E.C., Inc. (“Ford”)
Architect	Carter & Burgess, Inc.
Inspection	O’Connor Construction Management, Inc. (“O’Connor”)
Project Management	CSU Northridge Campus – Office of Facilities, Planning, Design and Construction

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-Bid-Build, Lump Sum contract.

Project Timeline

The initial design process started in 2001 by Carter & Burgess, however due to the redesign efforts to accommodate a two-phased project approach, bid drawings for Phase I were not completed until May, 2003. The construction work was bid in July, 2003. Complete construction documents were issued in September, 2003 and construction started on October 23, 2003 (Notice to Proceed) and was carried out by F.C. Ford. The contract completion date was specified as October 22, 2004. 61 additional schedule days were granted. The Project achieved Certificate of Occupancy on October 25, 2004 and Notice of Completion was issued as of December 20, 2004. Liquidated damages were not imposed.

Project Costs

The Phase I project was initially funded at \$7,288,773 including design, construction, Equipment, CPDC Administrative fees and contingency. An additional \$150,744 was added to the budget through CSUN's own funds for an HVAC upgrade resulting in an adjusted budget amount of \$7,442,367. Project expenditures at the time of KPMG's field work were \$7,121,884. Projected costs, which include charges by CSU Capital Planning, Design and Construction ("CPDC"), additional equipment purchases, and internal CSUN charge backs, were estimated to \$7,409,412 by the time the Project is finished, which is \$33,225 under the adjusted budget amount.

DESIGN COSTS

Through a competitive Request for Qualifications process with seven competing firms, Carter & Burgess was selected as the Architect for the Project. Originally, Carter & Burgess was retained to design the University Student Union Renovation as one phase. Bid documents were initially completed according to this scope, but when the construction bids came in more than 10% higher than the anticipated budget, redesign efforts were required, in accordance with provisions in the Architectural contract. As a result of the analysis following the bid results, CSUN decided, in conjunction with the Architect's team, to split the construction work into two phases. It was noted by KPMG that Carter & Burgess initially strongly disagreed with CSUN's calculation of the 10% overrun of the construction bids, but ultimately agreed to complete the redesign work.

A standard CSU Architect/Engineering Agreement was entered into effective March 13, 2001 in the amount of \$905,200 (with funds encumbered in the amount of \$171,988 at the time). The work at this time included scoping the University Student Union Renovation as one project. The contract covered Schematic Design, Preliminary Design, Bidding and Negotiation and Construction Administration Support, among other things. The Contract was later amended by 17 extra service agreements ("ESA's") plus one formal Amendment reaching a final contract value of \$1,175,901. The Amendment, which incorporated the requirements set forth by the directive to complete the Project in two phases, increased the base contract amount to \$921,870. CSUN felt that an Amendment, opposed to an ESA, was warranted in light of the significant changes required by the redesign process.

Of the total contractual amount, \$264,849 can be attributed to the increase in the base contract value as a result of the redesign efforts plus ESA's No. 1 - No. 7, which were entered into prior to the execution of the Amendment (effective April 30, 2003). However, not all costs associated with the contractual obligations entered into prior to the execution of Amendment 1 can be attributed to costs incurred solely for the benefit of the single phased design approach. Much of the design work that was completed as part of the initial bid package was still used in the design of Phase I and incorporated into the new, revised design scope. CSUN estimates that approximately \$45K was incurred in incremental additional costs as a result of the change of direction in the design process. The remaining \$220K in design costs (approximately) were still utilized for the two-phased approach.

Of the \$1,175,901 final contract value with Carter & Burgess, \$1,169,117 had been paid at the time of KPMG's field work.

The following table is a summary of the basic contract and extra services:

DESIGN COSTS

Description	Amount
Schematic Design	\$ 167,122
Site Survey	20,600
Food Service Program Assessment	3,000
ADA Project Consultation	2,000
Preliminary Design	123,142
Construction Documents	335,915
Bidding & Negotiation	35,359
Construction Admin.	188,977
Hub Demolition & Bldg Pad Const	45,743
Rounding	12
Subtotal Base Contract	\$ 921,870
ESA 1 - Revise floor plans	7/30/2001 9,250
ESA 2 - Measure peak electrical demand	7/30/2001 6,915
ESA 3 - Alarm system design	8/17/2001 35,000
ESA 4 - Revise second floor space plans	8/17/2001 13,425
ESA 5 - Elevator renovation design	11/14/2001 3,580
ESA 6 - Pub renovation	11/14/2001 90,089
ESA 7 - Acoustic Design	11/14/2001 28,920
ESA 8 - Prepare spec's for water testing	5/7/2003 500
ESA 9 - Misc. additional design	5/30/2003 16,200
ESA 10 - Kitchen floor	6/19/2003 1,450
ESA 11 - Telecom building	7/16/2003 1,650
ESA 12 - Misc. additional design	1/13/2004 5,800
ESA 13 - Misc. additional design	1/13/2004 5,475
ESA 14 - Balcony design	3/3/2004 6,900
ESA 15 - HVAC for retail spaces	5/27/2004 10,335
ESA 16 - Structural field observation	6/11/2004 1,300
ESA 17 - Misc. design revisions	6/15/2004 16,305
Subtotal ESA's	\$ 253,094
Total Contract Value	\$ 1,174,964

All ESA's, with the exception ESA number 15 and 17, contained appropriate signature authorization. When discussed with CSUN it was discovered that work included with ESA 15 was directed in the field and approved via e-mail. ESA number 17 was created to incorporate work, which had been approved in a similar fashion - verbally and via e-mail. However, invoices for ESA 17 were paid before the ESA had been issued. ESA number 17 was created as a result of reconciling invoices to the contractual agreement and it was discovered the work had been paid for without an ESA or other contractual agreement in place.

Observation:

The Architect performed and was paid for services without an approved ESA in place.

Risks:

Directing the Architect to perform work without an executed ESA puts CSUN at contractual risk.

In addition, allowing vendors to get paid without an ESA or other contractual agreement in place may result in overpayment.

Recommendations:

- 1a. CPDC should formalize dollar thresholds for when the Architect may commence work without an executed ESA. CPDC should also establish a reasonable time frame within which an ESA must be executed. (Ownership: CPDC)
- 1b. CPDC should ensure that Campuses understand the ESA process and the requirements for proceeding with work where no ESA can reasonably be executed beforehand. (Ownership: CPDC)
2. CSUN should only process invoices with an approved and executed contractual agreement or ESA in place for the invoiced amount. CSUN should implement a process to ensure this occurs in the future. (Ownership: CSUN)

Management Response:

- 1a. We agree. Advance, written authorization for the provision of services is required for all CSU professional service agreements. CPDC expects campuses to administer projects in this manner. However, the project administrator may determine that it is in the best interest of the trustees to verbally direct a service provider to start work in advance of the formal, written authorization.

CPDC has drafted procedures for this process, and will adopt them into SUAM, pending approval of the Executive Council of Executive Deans.

- 1b. We agree. In September 2005, CPDC conducted a systemwide training session, "Design Procedures & Building Official," at which CPDC staff discussed and reviewed the Extra Service Authorization process (including the practical necessity of verbal authorizations), and emphasized the need to put agreements and extra services in place timely.

Campus Response:

2. CSUN's Facilities Planning, Design and Construction department has a standard process in place for processing of capital project invoices that requires the Senior Financial Analyst and assigned Project Manager in Facilities Planning to verify the funding for base contracts and change order work. The standard procedure has been retransmitted to all Facilities Planning, Design and Construction management staff to reinforce the requirements.

CONSTRUCTION BID PROCESS

The construction bidding process for this project was administered through the Office of Facilities Planning, Design and Construction at CSUN.

The Phase I Project was constructed under the standard CSU design-bid-build approach and as such was advertised for bid in July, 2003. A complete set of specifications, general conditions and drawings were made available to all bidders. Bidders were required to complete a technical pre-qualification and financial pre-qualification before receiving a bid package.

Prior to bid opening, three addendums were issued, addressing bidder questions and clarifying scope, drawings and specifications.

Through a competitive bid process, five general contractors submitted bids; Emma Corporation, Ford E.C., Intertex, Mallcraft, Perera and SeaPac. The lowest responsible and responsive bidder was Ford E.C. at \$4,843,300.

KPMG reviewed CSUN's bid files and bid process and found the CSUN project administrative team in compliance with requirements related to Pre-bid Meeting, Advertising for Bids, Distribution of Project Plans and Specifications, Review of Bid Proposal Package, Addenda During Bidding, Pre-qualification of Bidders, Obtaining Required Documentation from the Successful Bidder, and Award of Contract.

Subcontractor Substitution

Ford 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. Review of CSUN filed indicated four instances of subcontractor substitution. Review of CSUN's files showed that appropriate approval documentation was obtained, as outlined below:

Listed Subcontractor	Substitution Subcontractor	Reason for Substitution	Date of CSUN Letter of Approval
Simon & Simon Plumbing	Jack Nirobe Plumbing	Original subcontractor withdrew from engagement.	December 18, 2003
Tower Pacific	R&D Drywall	Original subcontractor withdrew from engagement.	December 18, 2003
Ca. Fire Protection Sprinkler Co.	Air Flow Mechanical	Original subcontractor withdrew from engagement due to a busy schedule.	January 23, 2004
Arc-Accucon Construction	J.A. Concrete Construction	Original subcontractor did not honor total amount of original price; rejected signing Ford's contract; did not comply with requested performance and payment bond.	January 13, 2004

In addition, KPMG compared the Expanded List of Subcontractors to Ford's actual vendor cost information for significant subcontractor trades. KPMG found one instance of augmentation where Ford had not informed CSUN or received a CSUN letter of approval to commence with this augmentation. Iramax Glass was retained to supplement Man Metal. Ford agreed that they had overlooked informing CSUN.

Observation:

The Contractor performed a subcontractor substitution without formally informing CSUN or receiving a letter of approval.

Risks:

Augmenting subcontractor work forces without following established procedures may be in violation of governing regulations.

Recommendation:

3. CSUN should formalize this instance of augmentation with Ford in a letter arrangement and determine if any further action against Ford is warranted. (Ownership: CSUN)

Campus Response:

3. CSUN has determined that no further action against the contractor is warranted. A letter was sent to Ford E.C. regarding this issue that requests Ford to ensure that adequate documentation for use of substitute contractors is submitted on future projects.

CONSTRUCTION CHANGE ORDERS

Eleven change orders had been executed on the Project at the time of KPMG's review totaling \$618,658, net of a final credit change order in the amount of \$17,164. KPMG tested a sample of the change orders and its supporting documentation to help ensure compliance with policies and procedures for change order execution.

The sampled change order files contained supporting documentation commensurate with the requirements set forth by Trustee policy, including change order mark-up calculations and subcontractor quotes. While reviewing Ford's change order documentation and cost records, KPMG discovered one instance where subcontractor mark-up was not paid by Ford when it had paid by CSUN. Airflow Mechanical submitted a quote to Ford to install hot water piping, including mark-up, which was included in an approved change order to CSUN. The change order between Ford and Airflow Mechanical was later executed for an amount excluding the mark-up. The discrepancy is less than approximately \$3,000.

All sampled change orders followed the CSUN internal signature authorization requirements, however the change orders were not signed by the Architect to indicate recommendation of approval. KPMG also discovered that none of the contractor invoices were signed by the Architect or any other third party – inspector, construction manager or the like, to recommend approval. KPMG noted that CSUN's Capital Management Plan Delegation of Authority (February 20, 2003) contains a Change Order form, which does not contain a line for signature and recommendation for approval by the Architect. However, the current Change Order Form in CPDC's Project Administration Manual requires Architect recommendation for approval, which is commensurate with industry practices. CSUN explained to KPMG that on future projects, the Architect's signature approval is or will be implemented.

Observation:

Architectural signature authorization or inspector's recommendation for approval was not obtained by CSUN on change orders or contractor invoices.

Risk:

Inadequate authorization of change orders may lead to payments that do not agree to Architect's design or observations made by the inspector / construction manager.

Recommendations:

- 4a. On future contracts, adhere to mandated signature requirements on change orders. (Ownership: CSUN)

4b. Solicit formal recommendations for approval by the Architect and/or Inspector of Record and/or Construction Manager for invoices. (Ownership: CSUN)

Campus Response:

4a. In response to similar audit findings for capital projects on other CSU campuses, CSUN modified the standard Contract Change Document to include a signature line for the architect.

4b. The assigned Campus Construction Administrator for each project is responsible for reviewing and approving invoices. While the Construction Administrator consults with the inspector of record (IOR) as part of the monthly payment application process, signature by the IOR (and/or Construction Manager if assigned) is not required per SUAM 9803. The University concurs that the signature of the architect is required and now requires architect sign-off on Contractor payment applications.

Change Order Report Analysis

CSUN provided a change order log reflecting the source of each change order. The following table summarizes the data:

Type Of Change	Amount	% of Total CO	% of Orig. Contract
4.1 Error from the contract documents	\$14,745	2.38%	0.30%
4.1 Omissions from the contract documents	\$117,875	19.05%	2.43%
Subtotal	\$132,620	21.44%	2.74%
4.2 Unforeseeable job site condition	\$237,792	38.44%	4.91%
4.3 Change in the requirements of a regulatory	\$4,564	0.74%	0.09%
4.4 Change originated by the University	\$243,681	39.39%	5.03%
4.5 Changes in specified work due to the	\$0	0.00%	0.00%
4.6 Other	\$0	0.00%	0.00%
Total Change Orders	\$618,657	100.00%	12.77%
Original Contract Amount	\$4,843,300		
Total	\$5,461,957		

Change orders attributable to Architect’s errors and omissions comprise 21% of the total net change order costs. These errors and omissions comprise less than 3% of the total contract amount, which is not significant.

Recommendation:

None

Labor and Fringe Burden

5.7% of the change order costs or \$35,076 comprised charges for labor made by the Contractor's own forces. The majority of the change order work was performed by subcontractors or vendors. As such, the risk for cost overruns on labor and fringe burden by the Contractor's own forces is not significant and detail testing of burden was not performed. KPMG performed high level testing by reviewing of the hourly charges for reasonableness and reviewed detail back-up of how these rates were established by Ford. Nothing came to KPMG's attention that would indicate unreasonable Contractor labor fringe burden charges.

Recommendation:

None

PROJECT MANAGEMENT INSPECTION SERVICES

Independent project management and inspection services were provided by O'Connor Construction Management, Inc. CSUN entered into an initial agreement with O'Connor on October 31, 2003 for \$190,000 using a Standard Service Agreement. One change order was issued to close out the contract, resulting in a credit of \$57,224. However at the time of KPMG's review a signed copy had not yet been obtained from O'Connor. KPMG noted that the change was issued April 8, 2005, which was five months after O'Connor's last invoice had been processed. No ESA or Amendment was used to facilitate the contract close out, rather a new service agreement was executed with language referencing the modification of the original contract agreement.

CSUN explained that at times, invoices are received long after work has been completed by the vendor and it is difficult for CSUN to know what invoices are outstanding. Therefore contracts sometimes remain open for a period of several months after a project is completed and a vendor's work is done.

The table below summarizes the O'Connor contractual obligations:

Effective Date	Description	Amount
<i>Service Agreements</i>		
10/31/2003	Provide Inspection Services (Agreement No. 2PW0033000630)	\$ 190,000
4/08/2005	Revised Fee (Agreement No. 2PW0033000630) - pending	(57,224)
Total		\$ 132,776

Invoices were submitted and approved in accordance with contract terms and governing CSU construction administration procedures.

Observation:

CSUN's contractual obligation with the Inspector of Record was closed out late and when completed, an unsuitable document was used.

Risk:

Open contracts expose CSUN to continued contractual obligations and may keep funds encumbered unnecessarily. Closing a contract agreement late or using incorrect forms does not conform to Trustee Policy.

Recommendation:

5. On future contracts, CSUN should close out and disencumber funds in a timely manner to avoid open exposure to contractual obligations. An appropriate form as recommended by CPDC should be used for this purpose, such as an ESA or Amendment. CSUN should track work performed by vendors in a manner allowing for CSUN to determine whether or not invoices remain outstanding.
(Ownership: CSUN)

Campus Response:

5. On all future contracts involving not-to-exceed values, the campus will issue a close-out ESA or Contract Change Order to identify the final contract value upon completion of the work. The Campus has a construction management database system in place that tracks total contract value and invoices.

MAJOR EQUIPMENT/MATERIALS REVIEW

The University Student Union was an active building at the time of KPMG’s review and equipment and materials for review was selected partially based on accessibility in order not to disturb faculty, students and staff.

CSUN allowed full and complete access to drawings, specifications and submittals, which were organized in a fashion easy to locate and contained all sufficient information. The equipment was verified in the field against performance specifications issued, drawings and engineering calculations available and approved submittals.

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
04810	S1.3	ORCO Block	8x4x16, ASTM 90, Grade N, type I	Unit Masonry (CMU Wall)
11400	FS-1.1, FS-2.1	Pacific Greenheck Greenheck U.S. Range U.S. Range	Custom (Items 6, 26) GXEW-6.00-S (Item 37) GXEW-13.17-S (Item 43) C836-12-0 (Item 52.5) C836-12-0 (Item 55.5)	Walk-In Coolers Exhaust Hood Exhaust Hood Spreader Plate Heavy-Duty Gas Range
12460	Shop Drawings	Momentum Momentum Corian Burke Mercer	Cashmere Ebony Hazel Siegel Design Gray Field Stone SBR – 663 Sky Gray	Seating Fabric Seating Fabric Table Tops Rubber Covebase
15737	M-6.01, M-7.01	Carrier	38HDC018-3	Split System Air Conditioner
16276	E-5.01	Cutler Hammer	V48M28T33CUEE	Dry Type Transformer
16425	E-6.01	Cutler Hammer	50K Amp	Main Switchboard

All equipment conformed to the specifications above, based on a visual inspection of equipment labeling.

Recommendation:

None

CLOSE-OUT PROCESS

KPMG verified that project close-out requirements established by the Contract General Conditions and SUAM were adhered to. Since the Project was still contractually under way at the time of KPMG's field visit, as-built drawings were still being completed.

CSUN did not utilize the CPDC project close-out checklist, but still followed the requirements outlined by this form.

KPMG reviewed Punch List, Operating Permits, Operation and Maintenance (O & M) Manuals, Warranties, Inspection Reports, Punch List, Notice of Completion, and other relevant project close-out documentation, which was filed and retained at CSUN. No discrepancies were observed.

Recommendation:

None

LIQUIDATED DAMAGES

Ford received Notice to Proceed on October 23, 2003 and was directed to complete the Project completion by October 27, 2004. The Project was substantially complete and occupied by October 27, 2004 and Notice of Completion was filed December 21, 2004 upon completion of all punch list work. Ford was granted 61 additional days by CSUN through the change order process, resulting in a revised completion date of December 21, 2004. As a result, no liquidated damages were imposed.

Recommendation:

None

ACCOUNTING

KPMG reviewed the accounting process for the Project with CSUN, including invoice processing and accounts payable process. As noted previously in this report, KPMG found instances where invoices were paid without being checked against a contractual obligation and where contracts were closed out late. Aside from these discrepancies, the accounting reporting system utilized tracked contractual obligations and payments in a fashion similar to what has been observed at other Campuses.

CSUN's Office of Facilities, Planning, Design and Construction tracked contractual obligations and expenditures for certain contractors and consultants directly involved with the construction in excel format. KPMG has learned that accounting for transactions in excel is a common practice among CSU Campuses and could be an effective tool for the Office of Facilities, Planning, Design and Construction. However, it is imperative to make sure all such accounting is reflective of the actual transactions posted into the main accounting system. KPMG reviewed documentation which demonstrated that reconciliation between the excel spreadsheets and the main accounting system occurred.

Recommendation:

None



THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • EAST BAY • FRESNO • FULLERTON • HUMBOLDT
LONG BEACH • LOS ANGELES • MARSHALL ACADEMY • MONTEREY BAY • NORTHRIDGE • POMONA • SACRAMENTO
SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

RICHARD P. WEST
Executive Vice Chancellor
Chief Financial Officer

MEMORANDUM

RECEIVED
UNIVERSITY AUDITOR

DEC 16 2005

THE CALIFORNIA STATE
UNIVERSITY

Date: December 16, 2005

To: Larry Mandel
University Auditor
Office of University Auditor

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

Subject: Audit Report
University Student Union Renovation Project
California State University, Northridge

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

Attachments

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

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
UNIVERSITY STUDENT UNION RENOVATION PROJECT

DESIGN COSTS

Recommendations:

- 1a. CPDC should formalize dollar thresholds for when the Architect may commence work without an executed ESA. CPDC should also establish a reasonable time frame within which an ESA must be executed. (Ownership: CPDC)
- 1b. CPDC should ensure that Campuses understand the ESA process and the requirements for proceeding with work where no ESA can reasonably be executed beforehand. (Ownership: CPDC)

Management Response:

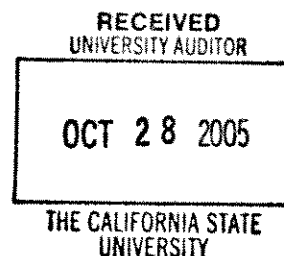
- 1a. We agree. Advance, written authorization for the provision of services is required for all CSU professional service agreements. CPDC expects campuses to administer projects in this manner. However, the project administrator may determine that it is in the best interest of the trustees to verbally direct a service provider to start work in advance of the formal, written authorization.

CPDC has drafted procedures for this process, and will adopt them into SUAM, pending approval of the Executive Council of Executive Deans.

- 1b. We agree. In September 2005, CPDC conducted a systemwide training session, "Design Procedures & Building Official," at which CPDC staff discussed and reviewed the Extra Service Authorization process (including the practical necessity of verbal authorizations), and emphasized the need to put agreements and extra services in place timely.

October 26, 2005

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



Subject: Campus Response to Recommendations: KPMG Audit Report on the
University Student Union Renovation Construction Project,
California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your letter of September 29, 2005. Also included is a copy of the responses in a Word document on the enclosed diskette.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Auditor at (818) 677-7647.

We appreciate the recommendations to improve CSUN's systems of internal control.

Sincerely,

A handwritten signature in cursive script that reads "Jolene Koester".

Jolene Koester
President

JK:mh

Enclosures

cc: Dr. Mohammad Qayoumi, VP for Administration and Finance and CFO
Colin Donahue, Director, Facilities Planning
Howard Lutwak, Director, Internal Audit

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
UNIVERSITY STUDENT UNION RENOVATION PROJECT

DESIGN COSTS

Recommendation:

2. CSUN should only process invoices with an approved and executed contractual agreement or ESA in place for the invoiced amount. CSUN should implement a process to ensure this occurs in the future. (Ownership: CSUN)

Campus Response:

2. CSUN's Facilities Planning, Design and Construction department has a standard process in place for processing of capital project invoices that requires the Senior Financial Analyst and assigned Project Manager in Facilities Planning to verify the funding for base contracts and change order work. The standard procedure has been retransmitted to all Facilities Planning, Design and Construction management staff to reinforce the requirements.

CONSTRUCTION BID PROCESS

Recommendation:

3. CSUN should formalize this instance of augmentation with Ford in a letter arrangement and determine if any further action against Ford is warranted. (Ownership: CSUN)

Campus Response:

3. CSUN has determined that no further action against the contractor is warranted. A letter was sent to Ford E.C. regarding this issue that requests Ford to ensure that adequate documentation for use of substitute contractors is submitted on future projects.

CONSTRUCTION CHANGE ORDERS

Recommendation:

- 4a. On future contracts, adhere to mandated signature requirements on change orders. (Ownership: CSUN)
- 4b. Solicit formal recommendations for approval by the Architect and/or Inspector of Record and/or Construction Manager for invoices. (Ownership: CSUN)

Campus Response:

- 4a. In response to similar audit findings for capital projects on other CSU campuses, CSUN modified the standard Contract Change Document to include a signature line for the architect.
- 4b. The assigned Campus Construction Administrator for each project is responsible for reviewing and approving invoices. While the Construction Administrator consults with the inspector of record (IOR) as part of the monthly payment application process, signature by the IOR (and/or Construction Manager if assigned) is not required per SUAM 9803. The University concurs that the signature of the architect is required and now requires architect sign-off on Contractor payment applications.

PROJECT MANAGEMENT INSPECTION SERVICES

Recommendation:

5. On future contracts, CSUN should close out and disencumber funds in a timely manner to avoid open exposure to contractual obligations. An appropriate form as recommended by CPDC should be used for this purpose, such as an ESA or Amendment. CSUN should track work performed by vendors in a manner allowing for CSUN to determine whether or not invoices remain outstanding. (Ownership: CSUN)

Campus Response:

5. On all future contracts involving not-to-exceed values, the campus will issue a close-out ESA or Contract Change Order to identify the final contract value upon completion of the work. The Campus has a construction management database system in place that tracks total contract value and invoices.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

December 19, 2005

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 Student Union Renovation* Construction Project at California State University, Northridge

LONG BEACH

LOS ANGELES

In response to your memorandum of December 19, 2005, I accept the response as submitted with the draft final report on the *University Student Union Renovation* construction project at California State University, Northridge.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

cc: Ms. Erika Alvord, KPMG
Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Dr. Jolene Koester, President
Dr. Mohammad Qayoumi, Vice President, Administration and Finance
Ms. Elvyra San Juan, Assistant Vice Chancellor, CPDC
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS