

**CALIFORNIA STATE UNIVERSITY,
SACRAMENTO**

HORNET BOOKSTORE

Final Report

April 30, 2008

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, SACRAMENTO
HORNET BOOKSTORE

April 30, 2008

Prepared by:



KPMG LLP

55 Second Street, Suite 1400
San Francisco, CA 94105

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 Hornet Bookstore project at California State University, Sacramento (CSUS) 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.

	Observation	Risk	Recommendation
1.	Time extensions were not negotiated on a contemporaneous basis as they occurred.	Late resolution of time extensions may negatively impact CSUS' ability to reach a favorable settlement toward the end of the Project while a timely filing of time extensions could help reduce the contractor's claim.	On future Projects, CSUS should follow SUAM and enforce prompt resolution of time extensions as delays occur. (Ownership: CSUS)
2.	Work was performed prior to the formal execution of an appropriate contract document.	Work performed without an executed contract document may result in a future consultant dispute due to the lack of a formally defined and agreed to scope of work, pricing arrangement and terms and conditions.	In the future, CSUS should execute a formal contract document with its consultants prior to permitting the consultants to perform any work. (Ownership: CSUS)
3.	Change Order 12 did not contain concurrence to the final settlement by the Vice President of Administration, as required by SUAM 9820.	Without complete documentation and approval to final negotiations with a contractor, there is a risk that improper settlement terms were reached.	In the future, CSUS should include a memorandum and obtain concurrence to final settlements by the Vice President of Administration, as required by SUAM. (Ownership: CSUS)

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, Sacramento’s Hornet Bookstore 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 CSUS’ Hornet Bookstore 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 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.

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.

PROJECT BACKGROUND

The California State University, Sacramento (“CSUS”) Hornet Bookstore project (“the Project”) included construction of a three story building to house the Hornet Bookstore on the first two floors, and the third floor was constructed as a shell to become office space at a later date. The building contains a concrete foundation, steel construction, pre-cast concrete, and spandrel glass exterior.

The Project was originally started by the University Foundation at CSUS, University Enterprises, Inc. (“UEI”) during a time frame when auxiliary units were authorized to obtain private funding. When CSU policy required the funding to be administered by CSU, the Project was transferred from UEI to CSUS.

From December 10 through December 14, 2007, KPMG conducted fieldwork at the CSUS campus. During fieldwork, KPMG reviewed records from the following entities involved with the Project:

Architect	Dreyfuss & Blackford Architects
General Contractor	Roebbelen Contracting, Inc.
Construction Management	V2CMA
Project Management and Administration	CSUS 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

The Project was delivered using a design-bid-build, lump sum contracting methodology.

Timeline

The project design was initiated on April 30, 2004 with the execution of an Architect agreement between Dreyfuss & Blackford Architects (“Dreyfuss”) and UEI. The construction work for the project was bid on January 18, 2006. Roebbelen Contracting, Inc. (“Roebbelen”), was awarded the contract with a bid of \$19,639,000. Construction began on April 3, 2006 with the issuance of the Notice to Proceed. CSUS was able to take beneficial occupancy of the first and second floors with a Conditional Certificate of Occupancy on July 25, 2007. The Notice of Completion was subsequently filed with the County Recorder’s office on November 30, 2007. As of the last day of KPMG’s fieldwork, there were two change orders pending finalization on the Project. Work related to both change orders had been completed and only financial close-out remained.

Project Costs

The Project was initially approved by the CSU Board of Trustees (“BOT”) in the amount of \$20,586,000. Project funding was provided from a combination of UEI reserves and system wide revenue bonds with repayment of the bonds to come from UEI revenues. Subsequent BOT approval resulted in \$23,230,200 in total approved budget for the Project.

At the time of our fieldwork, CSUS had incurred \$21,767,558 in costs on the Project and total commitments amounted to \$23,027,619, which is \$202,581 below the approved budget. The following table summarizes the Project budget and costs:

Description	Budget (2-7)	Commitments	Actual	Variance (Budget - Commitments)
Construction	\$ 19,639,000	\$ 20,612,957	\$ 19,437,532	\$ (973,957)
Architect and Engineering	1,048,000	1,610,205	1,569,804	(562,205)
Contract Management	1,375,000	728,633	684,418	646,367
Contingency	982,000	-	-	982,000
Required Additional Services	186,200	75,824	75,803	110,376
Group II Equipment	-	-	-	-
Total	\$ 23,230,200	\$ 23,027,619	\$ 21,767,558	\$ 202,581

An additional commitment in the amount of \$38,449 is anticipated upon the finalization of Change Order 11. Full execution and payment of this amount is still within the approved budget.

Recommendation:

None

DESIGN COSTS

Dreyfuss & Blackford Architects (“Dreyfuss”) was selected to perform architectural and engineering services on the Project. UEI initially contracted with Dreyfuss on April 30, 2004 using a standard CSU Project Architect/Engineer Agreement in the amount of \$1,048,000. Four amendments for extra design services were issued while the agreement was under the control of UEI. On August 7, 2006, the remainder of Dreyfuss agreement, in the amount of \$261,169, was assigned to CSUS. Three Extra Service Agreements (“ESA’s”) were issued subsequent to CSUS being assigned the agreement bringing the total revised contract value to \$1,277,883. The architectural base agreement, amendments and ESA’s are summarized in the table below:

Description	Date	Amount
Schematic Design (20%)	4/30/2004	\$ 209,538
Preliminary (14%)	4/30/2004	146,677
Construction Documents (38%)	4/30/2004	398,122
Bidding (2%)	4/30/2004	20,954
Construction Phase (22%)	4/30/2004	230,802
As-Builts (4%)	4/30/2004	41,907
Base Agreement Subtotal		\$ 1,048,000
UEI Amendment #1 - Restaurant site	2/7/2005	\$ 26,500
UEI Amendment #2 - Structural revisions	2/28/2005	25,000
UEI Amendment #3 - Follett revisions	2/13/2006	126,090
UEI Amendment #4 - Infrastructure revisions	3/7/2006	7,950
ESA #1 - Extra services, mechanical design	8/17/2006	36,000
ESA #2 - Parking revisions	9/6/2006	2,610
ESA #3 - Alumni grove and walkway	12/17/2006	5,733
Total		\$ 1,277,883

Recommendation:

None

CONSTRUCTION BID PROCESS

The construction bid process for the Project was administered through CSUS' Office of Facilities Planning and Construction Services following normal CSU procurement process with a pre-qualification requirement for prospective bidders. Seven contractors pre-qualified for this project.

A pre-bid meeting and project walk was held on December 15, 2005, which was attended by numerous contractors. Following the pre-bid meeting, four addenda were issued between December 19, 2005 and January 12, 2006 revising the drawings and specifications, revising the construction documents, changing the bid date, changing the subcontractor prequalification questionnaire, and providing clarifications.

Five of the seven pre-qualified contractors submitted competitive bids. The contractors included Roebbelen Contracting, Inc., Harbison-Mahoney-Higgins Builders, Inc., Unger Construction Company, Howard S. Wright Construction Co., and Flintco, Inc.

Bids were due and opened on January 18, 2006 as set forth in Addendum number 2. Following bid opening, a ranking was completed and an abstract of bids was created, per CSU bid policy. Howard S. Wright ("HSW") was the apparent low bidder with a base bid of \$19,049,000. Ranker AMG, a potential subcontractor, submitted a protest claiming HSW was non-responsive due to failure to properly list all subcontractors per Public Contract Code Section 4106. Around the same time, HSW noted a transposition error resulting in a bid that was materially different from intended. As a result of this error, HSW requested to be relieved of its bid. CSUS reviewed and granted HSW's request. The relief of HSW also resolved the protest in accordance with SUAM Section 9775 related to bid protests.

After HSW was relieved of its bid, Roebbelen was the apparent lowest responsive and responsible bidder and with a base bid of \$19,639,000. While this amount exceeded HSW's amount by \$590,000, it was \$1,560,011 less than the next lowest bidder.

KPMG reviewed CSUS' bid files and bid process on a sample basis and found the 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, issuing of addenda during bidding, pre-qualification of bidders, bid protest, relief of bidder, and obtaining required documentation from the successful bidder.

Recommendation:

None

Subcontractor Substitution

SUAM Section 9822 requires that CSUS monitor the use of subcontractors for compliance with Public Contract Code 4100. As part of this process the contractor is required to submit a Subcontractor Status report each month as subcontractors mobilize to the Project.

At project meetings CSUS, the contractor and the inspector review the Subcontract Status Report with the Expanded List of Subcontractors and with subcontractors actually working on site to verify that the subcontractors are in compliance with the requirements of PCC 4100. Any violations must be formally brought to the attention of the contractor.

Any substitutions are to be formally requested from the university by the contractor.

One substitution was noted on the Project where Performance Contracting was substituted for Advanced Interior Systems, Inc. ("AIS"). In accordance with requirements in SUAM and Public Contract Code, Roebbelen sent a Request for Substitution letter to CSUS on March 28, 2006 requesting substitution due to AIS' inability to provide required bonds as advertised. CSUS informed AIS of the request for substitution by Certified Mail on April 4, 2006. AIS objected to the substitution, and Counsel for AIS responded to CSUS with a protest letter within five days of the notification in a letter dated April 7, 2006. Pursuant to SUAM and Public Contract Code Section 4107(a), a hearing was scheduled. The hearing was held on April 24, 2006 and found that Roebbelen complied with Public Contract Code Section 4108 by clearly specifying the amount and requirements of the bonds to be submitted, and AIS refused to supply the bonds when called upon to do so. As such, the substitution was permitted as a result of the hearing.

Recommendation:

None

CONSTRUCTION CHANGE ORDERS

At the time of KPMG’s fieldwork, ten change orders had been executed in the total amount of \$369,461. Two additional change orders adding \$38,449 in cost and 156 days were negotiated and proceeding through the approval process during the time of KPMG’s fieldwork. The following table summarizes the executed change orders:

Change Order	Description	Date	Amount
1	Reinforcing at horizontal mullions, furnish, connect & maintain generator.	8/21/2006	\$ 12,452
2	Increase size of fire pump, electrical to accommodate, modify steel canopy.	11/6/2006	18,916
3	Exchange cantilevered structural steel C-channel for architectural C-channel.	4/20/2007	12,125
4	Add rigid insulation at the metal roof and telecommunications pathway.	8/8/2007	46,652
5	Modifications to fire rating, additional plumbing under slab, furring wall.	8/8/2007	68,599
6	Furnish and install mechanical piping and duct work and install boiler items.	10/8/2007	48,423
7	Paint above drop ceiling, reroute duct work away from motor control center.	11/26/2007	36,684
8	Provide additional concrete and landscaping adjacent to Serna Plaza.	11/26/2007	57,496
9	Provide natural gas system for new hot water boilers, deletion of AC paving.	12/6/2007	30,650
10	Revise telecommunication duct bank route, reestablish electrical feeds.	12/6/2007	37,464
Total			\$ 369,461

SUAM Appendix D – “Contract Change Order Procedures” provides guidance on contract change order process including the execution of change orders. This process begins with preparation of a change proposal completed by the design professional including an estimated cost of the proposed change. Once the change proposal is created, a cost request bulletin is issued by the architect requesting the contractor provide cost information for the proposed change including support documentation. The architect’s estimated costs included with the change proposal are compared to the contractor provided costs, negotiations are conducted if warranted, and a price is agreed upon. At this point, a change order form can be completed and the change order executed.

This is not the procedure followed by CSUS for execution of change orders on this Project. The cost proposals are completed subsequent to the cost request bulletins, based on the testing performed by KPMG. This indicates CSUS obtained cost information from the contractor prior to the issuance of a change proposal. It does not appear an independent architect’s estimate was prepared prior to soliciting the contractor’s quote. Although the justification for the changes generally were very well documented, SUAM requires specific steps in the change order process, including the use of an architect’s cost estimate.

Per a 2007 audit recommendation the CSU Capital Planning Design and Construction (CPDC) at the Chancellor’s Office has appropriately revised the contract change order process due to campus confusion over the requirements stated above. As a result, SUAM Appendix D – “Contract Change Order Procedures” is currently acceptable.

Recommendation:

None

SUAM Appendix D – “Contract Change Order Procedures” recommends the use of the Contractor Change Order Request Summary and the Subcontractor Change Order Request Summary worksheets for change orders. These forms assist in the correct computation and documentation of change order amounts, including the calculation of mark-up for the contractor, subcontractor, or subtier subcontractors. CSUS prepared letters containing similar information to these forms. A letter was prepared for each of the samples tested and contained a clear listing of the contractor and each subcontractor’s direct costs, mark-up and subtotals. Roebbelen’s mark-up on subcontractor direct costs was calculated and the change order total was produced. Since SUAM only recommends the use of the Change Order Request Summary forms, the use of the letter is acceptable and adds clarity to the change order package. KPMG did note two computational errors in these letters resulting in \$1,702 variance. Use of the suggested form may have prevented these errors, and CSUS may want to consider using the forms in the future.

Roebbelen requested time extensions on at least one change order line item, but no time extensions were granted until the issuance of Change Order 12. Change Order 12 was negotiated to grant an additional 156 days and was in the approval process at the time of KPMG’s fieldwork. SUAM Sections 9792.01 and 9833 promote contemporaneous settlement of time extensions throughout the contract period.

Granting time extensions on a contemporaneous basis is typically done when the time extension is known at the time of the change. Delaying the extensions until completion of the project may not always be the most beneficial approach.

Observation:

Time extensions were not negotiated on a contemporaneous basis as they occurred.

Risk:

Late resolution of time extensions may negatively impact CSUS’ ability to reach a favorable settlement toward the end of the Project while a timely filing of time extensions could help reduce the contractor’s claim.

Recommendation:

1. On future Projects, CSUS should follow SUAM and enforce prompt resolution of time extensions as delays occur.

(Ownership: CSUS)

Campus Response:

1. We concur. On future projects, the university will adhere to SUAM regarding the issue of time extensions, and will ensure prompt resolution of time extensions as delays occur. By June 30, 2008, the associate vice president of facilities services will communicate these standards in a memorandum.

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, the agreement as executed does not contain any language defining ‘standard of care’, but states the architect shall secure and maintain appropriate errors and omissions insurance of no less than \$1,000,000 per occurrence, \$2,000,000 per annual aggregate. This language has been changed in a later version of the CSU standard agreement to define ‘standard of care’.

CSUS provided a change order log reflecting the source of each change order. Based on the information available, the errors and omissions total \$99,845 and represent 0.5% of the original contract amount. This amount falls within CSU’s 3% acceptable level of ‘standard of care’. The table below provides a summary of the information provided:

Class	Type of Change	Amount	Percent of Total CO	Percent of Original Contract
4.1	Error in or omission from the contract documents	\$ 99,845	27.0%	0.5%
4.2	Unforeseeable job site condition	155,081	42.0%	0.8%
4.3	Change in the requirements of a regulatory agency	32,395	8.8%	0.2%
4.4	Change originated by the University	82,140	22.2%	0.4%
4.5	Changes in specified work due to the unavailability of specified materials	-	0.0%	0.0%
4.6	Other	-	0.0%	0.0%
Total Change Orders		\$ 369,461	100.0%	1.9%
Original Contract Amount		\$ 19,639,000		
Total		\$ 20,008,461		

Recommendation:

None

CONSTRUCTION MANAGEMENT SERVICES

V2CMA was retained to provide construction management services for the Project and entered into a standard CSU Service Agreement with CSUS on April 17, 2006 in the amount of \$376,240. Subsequent to the V2CMA agreement, one amendment and one ESA were issued bringing the total contract value to \$408,440.

The following table summarizes the contractual obligations between CSUS and V2CMA on the Project:

Description	Date of Execution	Amount
Base Contract	4/17/2006	\$ 331,240
Amendment 1 - Construction Management	9/10/2007	45,000
ESA #1 - Construction Management	11/6/2007	32,200
Total		\$ 408,440

The first invoice, in the amount of \$12,667, included work performed from November 2005 to March 2006. This time period occurred prior to the execution of the contractual agreement. In addition, \$38,380 in services were performed prior to the execution of Amendment 1. In total, the amount invoiced ahead represents 12.5% of the overall contract value. It is CSU policy that no work should occur prior to the formal execution of a contract. Although the invoices were approved for payment prematurely, no payment was made until after the formal execution.

Observation:

Work was performed prior to the formal execution of an appropriate contract document.

Risk:

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

Recommendation:

2. In the future, CSUS should execute a formal contract document with its consultants prior to permitting the consultants to perform any work.

(Ownership: CSUS)

Campus Response:

2. We concur. On future projects, the university will adhere to CSU policy regarding execution of a formal contract document prior to performance of work. By June 30, 2008, the associate vice president of facilities services will communicate this practice in a memorandum.

MAJOR EQUIPMENT/MATERIALS REVIEW

KPMG selected and reviewed a sample of materials and equipment based on construction cost and accessibility to the installed items. 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 or faculty activities.

CSUS allowed access to drawings, specifications, material samples, 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	Drawing No.	Brand	Model No./ Capacity	Description	Notes
15850	M0.2	Energy Labs, Inc.	C80224-FCH-E / 52,000	Air Handling Unit	AHU-1
151600	M0.2	B&G	15103BC / 460 GPM	Base Mount Pump	Premium Efficient Motor CHP-2
15860	M0.2	Greenheck	SWB15 / 1300 CFM	Exhaust Fan	EF-2 East General Building
166271	E6.1	Square D Company	1500 Kva 12.47kV:480/277v 4W	Pad Mounted Transformer	
16441	E6.1	Square D Company	2000 AMP 480/277 V 4W	Main Switchboard	MSB
16442	E6.2	Square D Company	480/277 v, 118.4 kva, 142.4 amp	Electrical Panel 1DHA	Panel 1DHA
14200		Custom (Otis Sub)	3500 lbs	Hydraulic Elevator	Elevator 1
8800	A3.3	Custom	n/a	Glazing	
3450	A3.1	Custom	n/a	5" Architectural Precast Concrete	

The equipment and materials observed in the field conformed to the specified requirements, drawings, 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

CLOSE-OUT PROCESS

CSUS was in the process of close-out as of the last day of KPMG's fieldwork and several administrative items were pending at that time. Although work had been completed, CSUS was in the process of collecting operating and maintenance ("O&M") manuals and warranties. As-built drawings had not arrived from the architect, and Change Orders 11 and 12 were in the process of obtaining the required signatures for execution.

The unexecuted copy of Change Order 11 in the amount of \$38,449 contained contractual language memorializing contractual release of Roebbelen. Change Order 12 added 156 days to the contract bringing the final contracted date of completion to November 30, 2007 as stated in the Notice of Completion.

To the extent possible, the project close-out requirements established by the Contract General Conditions and SUAM were verified. The CSU standard close-out checklist was used by CSUS to document close-out process as it progressed. KPMG reviewed Certificate of Completion and Notice of Completion, operation and maintenance manuals, warranties, and other relevant project close-out documentation as available.

A Conditional Certificate of Occupancy for the first and second floors was issued on July 25, 2007. CSUS took occupancy, and the Bookstore opened July 30, 2007. The Notice of Completion was issued on November 30, 2007. Nothing came to KPMG's attention indicating issues with the close-out process.

Recommendation:

None

LIQUIDATED DAMAGES

The Notice to Proceed issued to Roebbelen established the original term of the contract as 450 calendar days. Construction was scheduled to commence on April 3, 2006 with completion scheduled for June 27, 2007.

One time extension for this contract was granted on Change Order 12, which was pending approval at the completion of KPMG's fieldwork. Execution of Change Order 12 was anticipated to extend the contractual completion date by 156 days to November 30, 2007 as a global settlement.

The Notice of Completion was filed with the County Recorder's office on November 30, 2007. Per the Contract General Conditions Section 8.01, the Notice of Completion establishes the official completion date related to liquidated damages.

A Conditional Certificate of Occupancy for the first and second floors was issued on July 25, 2007. Section 38.02 of the 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 the Hornet Bookstore as of July 25, 2007 and reduced liquidated damages after this date, total liquidated damages are calculated to \$368,000.

CSUS expressed no interest in assessing liquidated damages and extended the contractual completion date by 156 days to November 30, 2007 upon execution of Change Order 12. SUAM 9820 requires that on substantial amounts and waiving liquidated damages, a memorandum should be attached to the change order that displays concurrence by the Vice President of Administration. The memorandum should document negotiations that occurred, amounts awarded, time extensions given, and liquidated damages waived.

Observation:

Change Order 12 did not contain concurrence to the settlement by the Vice President of Administration, as required by SUAM 9820.

Risk:

Without complete documentation and approval to final negotiations with a contractor, there is a risk that improper settlement terms were reached.

Recommendation:

3. In the future, CSUS should include a memorandum and obtain concurrence to final settlements by the Vice President of Administration, as required by SUAM.

(Ownership: CSUS)

Campus Response:

3. We concur. On future projects, the university will adhere to SUAM regarding proper level of concurrence for settlement change orders. By June 30, 2008, the Associate Vice President of Facilities Services will communicate this practice in a memorandum.

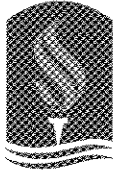
ACCOUNTING

CSUS accounted for the Project expenditures utilizing a CMS accounting system. A download of the Project expenditures and commitments from the CMS system was provided to KPMG in Excel form. KPMG reviewed the accounting process for the Project, including invoice processing and accounts payable. CSUS maintained a dedicated individual for Project accounting purposes who was able to generate the requested accounting reports, demonstrate tracking of expenditures by vendor and cost type and establish a total Project cost.

KPMG traced physical invoices and contractual obligations from the architect, contractor, and construction manager to the entries in the workbooks provided by CSUS. A sample of invoices we tested for appropriate approvals prior to payment. In addition, accounting information was obtained from the mainframe accounting system and on a sample basis was traced back to the spreadsheets provided. No exceptions were noted.

Recommendation:

None



SACRAMENTO
STATE

California State University, Sacramento
Office of the Chief Financial Officer & Vice President
6000 J Street • Sacramento Hall 272 • Sacramento, CA 95819-6038
T (916) 278-6312 • F (916) 278-5783 • www.csus.edu/admbus/

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JUN - 4 2008

THE CALIFORNIA STATE
UNIVERSITY

June 3, 2008

Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210

Subject: Campus Response to Recommendations Hornet Bookstore
Construction Project Evaluation

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

Stephen G. Garcia
Vice President for Administration

Attachment

cc: A. Gonzalez
K. McCoy
R. Richardson

CONSTRUCTION PROJECT EVALUATION
CALIFORNIA STATE UNIVERSITY, SACRAMENTO
HORNET BOOKSTORE

CONSTRUCTION CHANGE ORDERS

Recommendation:

1. On future Projects, CSUS should follow SUAM and enforce prompt resolution of time extensions as delays occur.

(Ownership: CSUS)

Campus Response:

1. We concur. On future projects, the University will adhere to SUAM regarding the issue of time extensions, and will ensure prompt resolution of time extensions as delays occur. By June 30, 2008, the associate vice president for facilities services will communicate these standards in a memorandum.

CONSTRUCTION MANAGEMENT SERVICES

Recommendation:

2. In the future, CSUS should execute a formal contract document with its consultants prior to permitting the consultants to perform any work.

(Ownership: CSUS)

Campus Response:

2. We concur. On future projects, the University will adhere to CSU policy regarding execution of a formal contract document prior to performance of work. By June 30, 2008, the associate vice president for facilities services will communicate this practice in a memorandum.

LIQUIDATED DAMAGES

Recommendation:

3. In the future, CSUS should include a memorandum and obtain concurrence to final settlements by the Vice President of Administration, as required by SUAM.

(Ownership: CSUS)

Campus Response:

3. We concur. On future projects, the University will adhere to SUAM regarding proper level of concurrence for settlement change orders. By June 30, 2008, the associate vice president for facilities services will communicate this practice in a memorandum.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

June 16, 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 that reads "Charles B. Reed".

FULLERTON

HUMBOLDT

SUBJECT: KPMG Draft Final Report on the *Hornet Bookstore*
Construction Project at California State University, Sacramento

LONG BEACH

LOS ANGELES

In response to your memorandum of June 16, 2008, I accept the response as submitted with the draft final report on the *Hornet Bookstore* construction project at California State University, Sacramento.

MARITIME ACADEMY

MONTEREY BAY

CBR/jt

NORTHRIDGE

Enclosure

POMONA

cc: Ms. Erika Alvord, KPMG

SACRAMENTO

Dr. Alexander Gonzalez, President, CSUS

SAN BERNARDINO

Ms. Kathy McCoy, Director, Auditing Services, CSUS

SAN DIEGO

Ms. Colleen Nickles, Assistant Vice Chancellor, Financial Services

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