

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO
COLLEGE OF EDUCATION

Audit Report 09-24
January 4, 2010

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ABBREVIATIONS

BOT	Board of Trustees
CM at Risk	Construction Manager at Risk
COE	College of Education
CPDC	Capital Planning, Design and Construction
CRB	Certification Review Board
CSU	California State University
EO	Executive Order
GMP	Guaranteed Maximum Price
OUA	Office of the University Auditor
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

At its January 2009 meeting, the Board of Trustees directed the Office of the University Auditor (OUA) to review construction activity. Construction auditing had been performed by KPMG since fiscal year 1997/98 with coordination from the OUA. In fiscal year 2008/09, OUA staff began performing construction audits.

We visited the California State University, San Bernardino campus and the offices of the construction manager and selected subcontractors from June 1, 2009, through June 25, 2009, and audited the College of Education project focusing on the construction management policies and procedures and internal controls and processes in effect at that time.

Our study and evaluation did not reveal any significant construction management or internal control problems or weaknesses that would be considered pervasive in their effects on construction activity controls. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls in effect for the College of Education project were sufficient to meet the overall audit objective stated below.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [7]

The campus did not request hourly labor rate worksheets for the construction manager and each trade subcontractor, which prevented the verification of wage rates submitted for change order work. In addition, certain construction manager monthly payment applications contained numerous material handwritten changes, and required approvers did not always initial the changes to indicate their concurrence.

CHANGE ORDER ADMINISTRATION [8]

Erroneous burden rate computations charged by two trade subcontractors inflated labor costs by \$4,894. Erroneous application of mark-ups by one trade subcontractor increased costs by \$468. Further, one trade subcontractor overcharged for material by \$906 due to a duplicate charge for sales tax. In addition, equipment rental costs, totaling \$6,160, charged by one trade subcontractor were not supported by sufficient documentation. Also, the campus had not developed procedures to verify the actual labor workforce mix used by trade subcontractors on change order work.

PROJECT COMPLETION AND CLOSEOUT [13]

The campus did not issue a change order to the construction manager when the State Fire Marshal granted a temporary certificate of occupancy on August 20, 2008.

INTRODUCTION

BACKGROUND

In January 1999, the Board of Trustees (BOT) approved a campus master plan revision for the California State University (CSU), San Bernardino campus, which included a future state-funded College of Education (COE) facility. In December 2004, the CSU San Bernardino campus awarded a contract to the construction management firm of Douglas E. Barnhart, Inc. for pre-construction services, which included design and bid phase services; and in March 2005, the campus executed a contract with the architectural firm of LPA, Inc. for services related and incidental to the design and construction. In May 2005, the BOT approved schematic plans for the COE at a project cost of \$48,697,000 with funding from California Proposition 55 Kindergarten-University Public Education Facilities Bond Act of 2004 monies.

In June 2006, the CSU San Bernardino campus executed an agreement with Douglas E. Barnhart, Inc. at a construction cost of \$40,795,171 and issued the Notice to Proceed on July 12, 2006, with a contract completion date of April 7, 2008. Although project construction was significantly completed by August 2008, a Notice of Completion was still pending as of the last day of audit fieldwork due to multiple disputes and open items, including two major punch list items and credit change orders that were disputed by the construction manager. The construction manager was in the process of resolving these two punch list items, and once resolved, the campus expects a Notice of Completion to be filed. In the meantime, the campus received a Certificate of Occupancy on August 20, 2008. On November 24, 2008, the campus notified the construction manager that liquidated damages were being assessed as of April 7, 2008, the contractual last day of construction. As of the last date of audit fieldwork, possible liquidated damages totaled approximately \$1.23 million.

The COE is a three-story, 130,000 square foot facility, and one of the largest, most technologically advanced structures on campus, housing classrooms, laboratories and much-needed office space for faculty and staff. Previously, classes, labs, and faculty offices were located throughout the campus in any available space, which limited communication and program identity.

The CSU San Bernardino campus managed the COE project, and the Construction Manager at Risk (CM at Risk) with Guaranteed Maximum Price (GMP) delivery method was chosen. In this method, a construction management firm, chosen by a competitive bidding process, provides all or significant portions of design and construction administrative services and takes part in establishing the GMP. The CM at Risk acts as the general contractor during construction, assumes the risk of subcontracting the work, and guarantees completion of the project. The liability for the success in completing the project on time and in budget lies with the construction manager, and not with the university. Further, there is a potential for cost savings should the project be completed below the GMP.

Executive Order (EO) 672, *Delegation of Capital Outlay Management Authority and Responsibility*, dated July 25, 1997, delegates the authority to directly manage state and non-state funded capital outlay projects to campus presidents. This delegated authority is issued subject to compliance with the capital outlay certification procedure, whereby a request for Delegation of Capital Outlay Management Authority is submitted by the campus for review by the Certification Review Board (CRB) and approval by the executive vice chancellor and chief financial officer in the chancellor's office. Further, the

campus president is responsible for ensuring that delegated authority is exercised in compliance with applicable statutes, regulations, and policies of the BOT; the process for management of campus capital projects is consistent with the provisions of the State University Administrative Manual (SUAM); and appropriate internal controls and processes are in place to ensure that responsibilities are carried out in a manner consistent with the campus capital outlay management plan submitted with the request for delegated authority.

The certification procedure required by EO 672 includes submission of a capital outlay management plan, which defines the campus organizational and operational structure and expenditure authority, and serves as the campus policies and procedures for the administration of construction activities. Updated plans are to be submitted when campus operational structure changes are made which impact the plan. Certification is continuous unless a Capital Planning, Design and Construction (CPDC) post project performance review determines that problems existed due to campus negligence, in which case the CRB may recommend that the campus be placed on probation. The CRB may ultimately recommend that certification be withdrawn if identified operational/management deficiencies are not remedied.

For those campuses that are not certified, the chancellor's office may execute a Memorandum of Delegation for a capital outlay project, which delegates administration, including construction management, to the campus. The CPDC Construction Management unit may also perform construction administration and management.

EO 666, *Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development*, dated March 7, 1997, delegates the authority to each campus president or designee to make all professional appointments relative to capital outlay projects and campus physical development. Further, the campus president or designee is responsible for ensuring compliance with all applicable statutes and regulations, BOT policies, and SUAM guidelines; and use of systemwide standardized architectural, engineering, and other professional appointment contract forms.

The SUAM, in part, contains an overview of all CPDC policies and procedures associated with the capital outlay process. SUAM §9700 through §9843, *Construction Management for Public Works Contracts*, describe the requirements for preparing and administering public works contracts under the provisions of Public Contract Code Section 10700 *et seq.* SUAM §9200 through §9212, *Professional Services for Campus Development*, describe the requirements for developing and administering professional services agreements with service providers such as architects and engineers and for testing services and project-related studies.

The CSU *Construction Management Procedures Manual* contains the CSU construction management policies and procedures that apply to a project, and each construction administrator, project manager, inspector of record, campus representative, and design professional is required to use this manual as appropriate during the construction administration of a project.

PURPOSE

The overall audit objective was to ascertain the effectiveness of construction management policies and procedures and internal controls and processes related to the administration of construction activities and, specifically, the College of Education project.

Within the overall audit objective, specific goals included determining whether:

- ▶ Delegated authority to manage capital outlay projects exists and the campus capital outlay management plan is current for campus-managed projects.
- ▶ Project development is in accordance with statutory and CSU policy requirements, including required BOT and CPDC approvals.
- ▶ Administration and management of the project provide effective internal controls and processes consistent with the campus capital outlay management plan and the SUAM.
- ▶ Professional appointments are in accordance with statutory requirements, BOT policy, and the SUAM; and systemwide standardized professional appointment contract forms are used, approved by the Office of General Counsel, and fully executed prior to performance of work.
- ▶ Extra services are appropriate, authorized, and separately tracked; and an evaluation is performed for each professional service provided.
- ▶ The bidding process is rigidly controlled, performed in accordance with statutory requirements and the SUAM, and incorporates the contract documents maintained on the CPDC website.
- ▶ Contract documents are complete, routed to the Office of General Counsel as appropriate, and timely executed; required contract bonds and insurance are received; and a Notice to Proceed is issued.
- ▶ Subcontractors are adequately monitored, and requests for subcontractor substitutions are handled in accordance with statutory requirements and the SUAM.
- ▶ Operational and administrative controls ensure maintenance of financial accountability and completion of the project within the approved scope, schedule, and budget.
- ▶ Contract and service agreement payments are adequately supported, appropriately approved, and timely paid; and retention is handled in accordance with statutory requirements and the SUAM.
- ▶ Equipment is procured in the most economical method; purchased materials meet specifications required by construction documents and drawings; and all required inspections and tests are timely and properly performed and adequately documented.

- ▶ Change orders are appropriately approved, supported, accurately priced, and sufficiently tracked; and construction allowances and contingency balances are adequately administered and controlled.
- ▶ Project completion is adequately administered, including completion of pre-final/final inspections, punch list items, project closeout checklist, and Notice of Completion; preservation of project files, equipment manuals/warranties, and spare parts/materials; and resolution of any liquidated damages.

SCOPE AND METHODOLOGY

The scope of audit included, but was not limited to, the review of design budgets and costs; the bid and award process; invoice processing and payment; change orders; construction management, architectural, and engineering services; use of major equipment/materials; the closeout process; administration of liquidated damages; and overall project cost accounting and reporting. This included any transactions or activity performed by the campus, construction management firm, and trade subcontractors.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, BOT policies, and Office of the Chancellor and campus policies, letters, and directives.

We focused primarily on the operational and administrative controls in effect for the College of Education project with an emphasis on compliance with the CSU *Construction Management Procedures Manual*, SUAM policies and procedures associated with the capital outlay process, the campus capital outlay management plan, and construction contract general conditions. We evaluated the effectiveness of construction management policies and procedures and adequacy of internal controls and processes, and sought opportunities for improvement to further the success of CSU's capital outlay program.

Specifically, we reviewed and tested:

- ▶ Delegation of construction management authority.
- ▶ Review and approval of project design, budget, and funding.
- ▶ Professional services agreements and any extra services changes.
- ▶ Administration of the bid and award process.
- ▶ Contract execution and required contract bonds and insurance.
- ▶ Subcontractors and subcontractor substitutions.
- ▶ Contract and service agreement payment processing.
- ▶ Procurement of major equipment and materials.
- ▶ Performance of required inspections and tests.
- ▶ Review, approval, and tracking of change orders.
- ▶ Direct labor and associated burden.
- ▶ Construction management and overall project cost accounting and reporting.
- ▶ Construction allowances and contingency balances.
- ▶ Administration of the project closeout process and resolution of any liquidated damages.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CONSTRUCTION MANAGEMENT AND ACCOUNTING

LABOR RATE WORKSHEETS

The campus did not request hourly labor rate worksheets for the construction manager and each trade subcontractor, which prevented the verification of wage rates submitted for change order work.

State University Administrative Manual (SUAM) §9824.01 states that the contractor shall submit to the construction administrator the hourly labor rate worksheet for its entire payroll, as well as for all of its subcontractors. Having hourly labor rate worksheets will allow a check on wage rates submitted for change order work.

The campus director and executive dean of capital planning, design and construction (CPDC) stated that the chancellor's office CPDC department was utilizing a third-party vendor to review payroll records for the project, and the campus mistakenly believed that the review included verification of wage rates on change order work.

Failure to request and use hourly labor rate worksheets prevents verification of wage rates submitted for change order work that may result in the campus being charged excess labor costs.

Recommendation 1

We recommend that the campus reiterate to staff that hourly labor rate worksheets for the construction manager and each trade subcontractor should be requested and used to verify wage rates submitted for change order work.

Campus Response

The campus concurs with the recommendation. A written directive which reiterates requesting the hourly labor rate worksheets from the construction manager and each trade subcontractor will be distributed to all office managers and applicable administrative support staff. The directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

PAYMENT APPLICATIONS

Administration of construction manager monthly payment applications required improvement.

The construction manager submitted monthly payment applications requesting payment for construction activities completed to date. We reviewed 29 payment applications and found four payment applications with numerous material handwritten changes to the amounts disbursed to the

construction manager. Further, these changes were not always initialed by all required approvers to indicate their concurrence.

SUAM §9803 states that the contractor's properly submitted monthly payment request must be approved and signed by the project manager/construction inspector, the design professional, and the construction administrator before payment.

The campus CPDC director and executive dean stated that many of the corrections on the payment requests were made to expedite payment to the construction manager. He further stated his belief that re-routing payment applications to all required parties for explainable adjustments would have caused unnecessary delays in the disbursement process.

Inadequate administration of construction manager monthly payment applications may result in unwarranted changes and reconciliation issues between campus and construction manager project accounting records, and increases the risk that errors and irregularities will not be detected.

Recommendation 2

We recommend that the campus require the construction manager to submit a revised payment application, if it identifies errors in the original, and ensure that all required approvals are obtained.

Campus Response

The campus concurs with the recommendation and will ensure that all project managers are in compliance by returning immediately any original payment application needing revisions due to errors, and ensure that all required approvals are obtained. A directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

CHANGE ORDER ADMINISTRATION

LABOR RATES AND BURDEN

Administration of trade subcontractor labor rates and associated labor burden needed improvement.

We reviewed hourly labor rates and the associated labor burden charged by three trade subcontractors and found erroneous burden rate computations for two trade subcontractors. Specifically, the subcontractors calculated labor burden on the total hourly wage rate, which included fringe benefits not paid to the employees, instead of on the hourly base wage rate paid to the employees. This error inflated labor costs \$1,888 and \$3,006, respectively, for all approved change order requests from these two trade subcontractors.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (1) states that costs are allowed for the actual payroll costs to the construction manager for labor, field supervision of changed work, and engineering or technical services directly required for the performance of the changed work. Costs include payments, assessments, or benefits required by lawful labor union collective bargaining agreements, compensation insurance payments, liability insurance premiums on labor only, contributions made to the state pursuant to the Unemployment Insurance Code, and for taxes paid to the federal government required by the Social Security Act.

The campus CPDC director and executive dean stated that the chancellor's office CPDC department was utilizing a third-party vendor to review payroll records for the project, and the campus mistakenly believed that the review included verification of wage rates on change order work.

Failure to review hourly labor rates and associated labor burden may result in increased project costs.

Recommendation 3

We recommend that the campus:

- a. Pursue recovery of the \$4,894 in inflated labor costs submitted by the construction manager for erroneous burden rate computations charged by the two trade subcontractors.
- b. Conduct staff training to ensure that hourly and premium labor rates and the associated labor burden charged by trade subcontractors are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. The campus concurs with the recommendation. The recovery will be part of the Global Settlement with the contractor, which is in process.
- b. The campus concurs with the recommendation. Staff training will be conducted for the labor rates and associated labor burden charged by the trade subcontractors.

MARK-UPS

Administration of trade subcontractor mark-ups needed improvement.

We reviewed overhead and profit mark-ups applied by two trade subcontractors and found an overcharge of \$468 by one trade subcontractor. We noted that the subcontractor erroneously applied a 15 percent mark-up instead of a 7 percent mark-up to work performed by a second-tier subcontractor.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (5) states that the maximum allowable mark-up of trade contractors on any subcontractor tier

shall be 7 percent. In addition, the combined costs (mark-up) for the trade contractors include overhead, profit, taxes, indirect supervision, insurance, bonds, and warranty.

The campus CPDC director and executive dean stated that they did not have the resources required to conduct such a thorough review of the change orders.

Failure to review trade subcontractor mark-ups increases the risk that errors and irregularities will not be detected and may result in increased project costs.

Recommendation 4

We recommend that the campus:

- a. Pursue recovery of the \$468 of increased mark-ups.
- b. Conduct staff training to ensure that trade subcontractor mark-ups are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. The campus concurs with the recommendation. The recovery will be part of the Global Settlement, which is in process.
- b. The campus concurs with the recommendation and will ensure that all project managers receive training and are in compliance with trade subcontractor mark-ups.

Completion Date: February 26, 2010

MATERIAL COSTS

Administration of material costs needed improvement.

We reviewed material costs for two trade subcontractors and found an overcharge for materials of \$906 by one trade subcontractor due to a duplicate charge for sales tax.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (2) states that construction manager's costs are allowed for the cost of materials directly required for the performance of the changed work. Such cost of materials may include the costs of transportation, sales tax, and delivery if necessarily incurred.

The campus CPDC director and executive dean stated that they did not have the resources required to conduct such a thorough review of change orders.

Failure to adequately review material costs may result in increased project costs.

Recommendation 5

We recommend that the campus:

- a. Pursue recovery of the \$906 of increased material costs.
- b. Conduct staff training to ensure that trade subcontractor material costs are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. The campus concurs with the recommendation. The recovery will be part of the Global Settlement with the contractor, which is in process.
- b. The campus concurs with this recommendation and will ensure that all project managers receive training.

Completion Date: February 26, 2010

EQUIPMENT COSTS

Equipment rental costs, totaling \$6,160, charged by one trade subcontractor were not supported by sufficient documentation.

We reviewed equipment rental costs for two trade subcontractors and found that one trade subcontractor did not provide documentation with its change orders to support its charges for the type of equipment used, subcontractor owned or rented recharge rates, length of time the equipment was used, and actual cost incurred.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (3) states that costs are allowed for the actual cost of the use of equipment directly required in the performance of the changed work except that no payment will be made for time while equipment is operative due to breakdowns or for non-working days.

The campus CPDC director and executive dean stated that they did not have the resources required to conduct such a thorough review of the change orders.

Insufficient supporting documentation for equipment rental costs on change orders increases the risk that errors and irregularities will not be detected and may result in excessive equipment rental costs.

Recommendation 6

We recommend that the campus conduct staff training to ensure that rental costs charged by subcontractors are sufficiently documented and appropriately verified in accordance with §6.00,

Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

The campus concurs with the recommendation and will ensure that all project managers are trained and reiterate the importance to verify the rental costs charges and document in accordance to the Changes in Work section of the Contract General Conditions for CM@Risk with GMP projects.

Completion Date: February 26, 2010

LABOR WORKFORCE MIX

The campus had not developed procedures to verify the actual labor workforce mix used by trade subcontractors on change order work.

We reviewed change orders and payroll records for four trade subcontractors and found that their labor workforce was made up of various classifications of journeyman, apprentice, and laborer personnel performing base contract, non-change order construction work. These classifications have different levels of experience, training, and skills, and therefore are paid at various hourly wage rates. However, these trade subcontractors consistently used the highest labor rate listed for the journeyman classification when charging change order work. In one instance, we noted a trade subcontractor indicated the use of a journeyman and an apprentice on a change order, but still charged the change order at the single, higher journeyman rate.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (1) states that labor costs are allowed for the actual payroll cost to the construction manager for labor, field supervision of changed work, and engineering or technical services directly required for the performance of the changed work.

The campus CPDC director and executive dean stated that they did not have the resources required to conduct such a thorough review of the change orders.

Failure to review the labor workforces employed by trade subcontractors may result in increased project costs.

Recommendation 7

We recommend that the campus develop, document, and implement procedures to verify the labor workforce mix used in performance of change order work.

Campus Response

The campus concurs with the recommendation. A written directive which reiterates the importance in verifying and documenting the labor workforce mix used in performance of change order work

procedures will be distributed to all CPDC managers. The directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

PROJECT COMPLETION AND CLOSEOUT

The campus did not issue a change order to the construction manager when the State Fire Marshal granted a temporary certificate of occupancy on August 20, 2008.

SUAM §9830.02 states that the Trustees reserve the right to occupy all or any part of a project prior to completion of the contract. In this event, the construction administrator shall issue a field instruction to the contractor, noticing the contractor that the campus will be taking beneficial occupancy of all or portions of the project on a specific date at a specific time. A change order must be executed which will document the date, liability, and start of warranty.

The campus CPDC director and executive dean stated that at the time, the chancellor's office CPDC instructed them to complete only a field instruction for the construction manager and did not indicate that a change order was also required.

Failure to issue a change order to the construction manager when beneficial occupancy is granted increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 8

We recommend that the campus reiterate to staff that a change order should be issued to the construction manager when the State Fire Marshal grants a temporary certificate of occupancy.

Campus Response

The campus concurs with the recommendation. A written directive reflecting the importance that a change order be issued to the construction manager when the State Fire Marshal grants a temporary certificate of occupancy will be provided to all CPDC managers and applicable staff. The directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

APPENDIX A: PERSONNEL CONTACTED

Name

Title

Office of the Chancellor

Elvyra San Juan

Assistant Vice Chancellor,
Capital Planning, Design and Construction

California State University, San Bernardino

Albert K. Karnig

President

Hamid Azhand

Director and Executive Dean,
Capital Planning, Design and Construction

Robert Gardner

Vice President for Administration and Finance

Kathy Hansen

Director of Procurement

Maria Lootens

Capital Analyst and Resource Specialist,
Capital Planning, Design and Construction

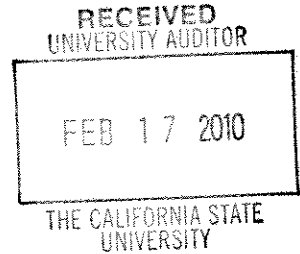
Bob Wilson

Associate Vice President for Administration and Finance

State of California

California State University, San Bernardino
5500 University Parkway
San Bernardino, California 92407-2397

MEMORANDUM



DATE: February 11, 2010

TO: Larry Mandel
University Auditor
The California State University

FROM: Bob Gardner, Vice President
for Administration and Finance

A handwritten signature in black ink, appearing to be "Bob Gardner", written over the printed name in the "FROM" field.

SUBJECT: **Campus Response to
College of Education Audit – Report No. 09-24
California State University, San Bernardino**

Enclosed is the campus response to CSUSB's *College of Education Audit – Report No. 09-2*.

Please contact me with any questions you may have. Thank you.

c: Al Karnig
Hamid Azhand

Enclosure

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO
COLLEGE OF EDUCATION
Audit Report 09-24

CONSTRUCTION MANAGEMENT AND ACCOUNTING

LABOR RATE WORKSHEETS

Recommendation 1

We recommend that the campus reiterate to staff that hourly labor rate worksheets for the construction manager and each trade subcontractor should be requested and used to verify wage rates submitted for change order work.

Campus Response

The campus concurs with the recommendation. A written directive which reiterates requesting the hourly labor rate worksheets from the construction manager and each trade subcontractor will be distributed to all office managers and applicable administrative support staff. The directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

PAYMENT APPLICATIONS

Recommendation 2

We recommend that the campus require the construction manager to submit a revised payment application, if it identifies errors in the original, and ensure that all required approvals are obtained.

Campus Response

The campus concurs with the recommendation and will ensure that all project managers are in compliance by returning immediately any original payment application needing revisions due to errors, and ensure that all required approvals are obtained. A directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

CHANGE ORDER ADMINISTRATION

LABOR RATES AND BURDEN

Recommendation 3

We recommend that the campus:

- a. Pursue recovery of the \$4,894 in inflated labor costs submitted by the construction manager for erroneous burden rate computations charged by the two trade subcontractors.
- b. Conduct staff training to ensure that hourly and premium labor rates and the associated labor burden charged by trade subcontractors are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. The campus concurs with the recommendation. The recovery will be part of the Global Settlement with the Contractor which is in process.
- b. The campus concurs with the recommendation. Staff training will be conducted for the labor rates and associated labor burden charged by the trade subcontractors.

Completion Date: February 26, 2010

MARK-UPS

Recommendation 4

We recommend that the campus:

- a. Pursue recovery of the \$468 of increased mark-ups.
- b. Conduct staff training to ensure that trade subcontractor mark-ups are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. The campus concurs with the recommendation. The recovery will be part of the Global Settlement which is in process.
- b. The campus concurs with the recommendation and will ensure that all project managers receive training and are in compliance with trade subcontractor mark-ups.

Completion Date: February 26, 2010

MATERIAL COSTS

Recommendation 5

We recommend that the campus:

- a. Pursue recovery of the \$906 of increased material costs.
- b. Conduct staff training to ensure that trade subcontractor material costs are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. The campus concurs with the recommendation. The recovery will be part of the Global Settlement with the contractor, which is in process.
- b. The campus concurs with this recommendation and will ensure that all project managers receive training.

Completion Date: February 26, 2010

EQUIPMENT COSTS

Recommendation 6

We recommend that the campus conduct staff training to ensure that rental costs charged by subcontractors are sufficiently documented and appropriately verified in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

The campus concurs with the recommendation and will ensure that all project managers are trained and reiterate the importance to verify the rental costs charges and document in accordance to the Changes in Work section of the Contract General Conditions for CM@Risk with GMP projects.

Completion Date: February 26, 2010

LABOR WORKFORCE MIX

Recommendation 7

We recommend that the campus develop, document, and implement procedures to verify the labor workforce mix used in performance of change order work.

Campus Response

The campus concurs with the recommendation. A written directive which reiterates the importance in verifying and documenting the labor workforce mix used in performance of change order work procedures will be distributed to all CPDC managers. The directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

PROJECT COMPLETION AND CLOSEOUT

Recommendation 8

We recommend that the campus reiterate to staff that a change order should be issued to the construction manager when the State Fire Marshal grants a temporary certificate of occupancy.

Campus Response

The campus concurs with the recommendation. A written directive reflecting the importance that a change order be issued to the construction manager when the State Fire Marshal grants a temporary certificate of occupancy will be provided to all CPDC managers and applicable staff. The directive will be incorporated into the CSUSB-CPDC Construction Management Manual.

Completion Date: February 26, 2010

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

March 29, 2010

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor



FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-24 on the *College of Education*,
California State University, San Bernardino

LONG BEACH

LOS ANGELES

In response to your memorandum of March 29, 2010, I accept the response as submitted with the draft final report on the *College of Education* construction project, California State University, San Bernardino.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS