

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
FRESNO
LIBRARY ADDITION AND RENOVATION

Audit Report 09-30
June 30, 2010

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ABBREVIATIONS

BOT	Board of Trustees
CM at Risk	Construction Manager at Risk
CPDC	Capital Planning, Design and Construction
CRB	Certification Review Board
CSU	California State University
CSUF	California State University, Fresno
EO	Executive Order
ESA	Extra Service Authorization
GMP	Guaranteed Maximum Price
Library	Library Addition and Renovation
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, Fresno campus and the offices of the construction manager and selected subcontractors from December 14, 2009, through February 5, 2010, and audited the Library Addition and Renovation (Library) 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 Library 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.

PROJECT DEVELOPMENT AND DESIGN [8]

The chancellor's office Capital Planning, Design and Construction department approved the use of 95 percent complete construction plans and project specifications for trade subcontractor bidding prior to receiving a complete plan check, which includes a final constructability check by the construction manager and assessment by the architect. In addition, Extra Services Authorization letters did not always include the correct cost of work and cumulative contract amounts.

CHANGE ORDER ADMINISTRATION [9]

Certain change orders were not properly approved. Further, unallowable labor rates and erroneous labor burden components inflated labor costs by \$111,201. In addition, inclusion of erroneous second-tier subcontractor costs inflated change orders by \$4,109.

PROJECT COMPLETION AND CLOSEOUT [12]

The campus did not issue a field instruction and change order to the construction manager when the campus began occupying the Library project for their intended use in February 2009, seven months prior to filing the Notice of Completion.

INTRODUCTION

BACKGROUND

In September 1994, the Board of Trustees (BOT) approved a campus master plan revision for the California State University, Fresno (CSUF) campus, which included an addition to and renovation of the original campus library, built in 1956 and previously renovated in 1980. In November 2004, CSUF executed a contract with the construction management firm of Swinerton Builders, Inc. for pre-construction services that included design and bid phase services; and in December 2004, the campus executed a contract with the architectural firm of AC Martin Partners for services related and incidental to the design and construction. In March 2005, the BOT approved schematic plans for the Library Addition and Renovation (Library) at a project cost of \$94,742,000 with \$1,667,000 of funding from California Proposition 55 Kindergarten-University Public Education Facilities Bond Act of 2004 monies, and the remainder from the fiscal year 2005/06 Governor's Budget. In March 2007, the BOT approved a request to name the north tower of the Library as the Table Mountain Rancheria Tower in recognition of a \$10 million commitment to the campus by the Chukchansi/Mono people of Table Mountain Rancheria.

In August 2006, CSUF executed two agreements for site utilities and abatement and demolition services with Swinerton Builders, Inc. at a construction cost of \$2,340,710 and issued the Notices to Proceed on August 23, 2006. These agreements allowed the construction manager to begin the first two phases of the project, demolition and removal of the original north wing of the Library and site preparation. These two phases began prior to determination of the final guaranteed maximum cost of construction to ensure compliance with a very aggressive construction schedule. In November 2006, CSUF executed an agreement for construction services, the final phase of the project, with Swinerton Builders, Inc. at a construction cost of \$70,900,849 and issued a Notice to Proceed on November 29, 2006, with an expected contract completion date of September 19, 2008, that was subsequently extended to April 12, 2009. The State Fire Marshal granted a Conditional Certificate of Occupancy on May 28, 2008, for use of the basement and first floor and granted a Certificate of Occupancy on January 12, 2009. The campus filed a Notice of Completion on September 28, 2009.

The Library is a four-story, 328,000-square-foot project, including a 243,000-square-foot addition that replaced the building's existing north wing and renovation of 85,000 square feet of the south wing. The Library is the largest library in the California State University (CSU) system, the largest academic library between Southern California and the Bay Area, and is the largest academic building on the campus. The Library houses over 1,000,000 volumes that are mainly maintained in the basement and on the first floor, stored in compact mobile shelving systems made up of 5,195 linear feet of rail and over 20 miles of shelving. Programmatically, the building provides space for support staff, group study rooms, tutoring service, a coffee house and café seating, and campus administrative offices.

The CSUF campus managed the Library project and it chose the Construction Manager at Risk (CM at Risk) with Guaranteed Maximum Price (GMP) delivery method. 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 to campus presidents the authority to manage directly state and non-state funded capital outlay projects. The chancellor's office issues this delegated authority to the campus subject to its compliance with the capital outlay certification procedure. To comply, the campus submits a request for Delegation of Capital Outlay Management Authority to the Certification Review Board (CRB) for review. Then the executive vice chancellor and chief financial officer in the chancellor's office must approve the request. The campus president is responsible for ensuring that he or she exercises delegated authority in compliance with applicable statutes, regulations, and policies of the BOT; the campus manages capital projects via a process consistent with the provisions of the State University Administrative Manual (SUAM); and the campus has in place appropriate internal controls and processes 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 were caused by 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 the 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 §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 Library 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 Library 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.

INTRODUCTION

- ▶ 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 AND MANAGEMENT RESPONSES

PROJECT DEVELOPMENT AND DESIGN

CONTRACT DOCUMENTS

The chancellor's office Capital Planning, Design and Construction (CPDC) department approved the use of 95 percent complete construction plans and project specifications for trade subcontractor bidding prior to receiving a complete plan check, which includes a final constructability check by the construction manager and assessment by the architect.

The California State University (CSU) *Request for Proposal: Model and Guidelines for Construction Manager Services at Risk with Guaranteed Maximum Price* §1.9.01.5 states that each project should go to trade subcontractor bids only after documents have been plan-checked, and the final constructability check has been performed by the Construction Manager at Risk (CM at Risk) and addressed by the architect.

The CPDC former senior chief of construction management stated that 95 percent complete construction plans and project specifications were used for the bidding of trade subcontractors because minimal changes were anticipated from the plan checks. He further stated that the project schedule had critical milestones that required the project to be bid by a certain date, and delaying bidding until 100 percent complete construction plans and project specifications were complete might have caused significant project postponements and increased project costs.

Failure to ensure proper plan checks increases the risk that errors and omissions within the construction plans and project specifications would be undetected and may result in increased project costs.

Recommendation 1

We recommend that CPDC ensure that all CM at Risk projects receive proper plan checks prior to authorizing the campus to proceed with trade subcontractor bidding.

Management Response

We agree. We have modified the CM at Risk Model & Guidelines to require the university to obtain from the CM a letter to the university stating that the CM has completed its constructability and coordination review. Once the university receives this letter, and all of the plan checks are completed, the university may proceed to bid the trades.

EXTRA SERVICES

Extra Service Authorization (ESA) letters did not always include the correct cost of work and cumulative contract amounts.

We reviewed 14 ESA letters for additional services by the architect and found 12 letters were not updated to include the correct cost of the work performed and the revised cumulative amount of the architectural contract.

State University Administrative Manual (SUAM) §9210.03 states that ESA letters shall define the scope of work, deliverables and time frame for completion of work, and a fee or fee limit, and require a countersignature by the service provider.

The associate director of planning and administration stated that the ESA letters were not updated to reflect current amounts due to oversight.

The absence of complete, written ESA letters increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 2

We recommend that the campus reiterate to staff that ESA letters are to be updated to include the correct cost of the additional services and the current cumulative contract amount.

Campus Response

We concur. Procurement and support services, as well as facilities management personnel, have noted this error, and the need for more due diligence during this process has been communicated during our meetings. Formal/written communication will occur by September 1, 2010.

CHANGE ORDER ADMINISTRATION

APPROVAL

Change orders were not always properly approved.

We reviewed 47 change orders and found the following:

- ▶ In three instances, the vice president of administration did not approve credit change orders in excess of \$100,000.
- ▶ In two instances, the associate vice president of facilities did not approve credit change orders in excess of \$50,000.

- ▶ In one instance, a change order for \$20,000 was approved from a draft version.

The CSU *Construction Management Project Administration Reference Manual* §4.05c states that the construction administrator (associate director of planning and administration) shall review each contract change order for conformance to the approved change proposal(s) and review all attached backup for completeness and conformance to contract specification. The contract administrator shall sign all change orders not exceeding \$50,000 (per the campus capital outlay management plan). If there are multiple change items on a single change order, the construction administrator may sign the change order only if the absolute value of each separate item listed on the change order does not exceed his/her authority. If one or more of the items exceeds the construction administrator's signature authority, the construction administrator must secure a signature from someone with a higher level of signature authority (i.e., the executive dean for changes between \$50,001 and \$100,000 and/or the vice president for administration and finance for changes exceeding \$100,000).

The associate vice president for facilities management stated that the cited change orders were not signed by the associate vice president of facilities management or the vice president of administration because they were unaware of the need to review credit items on change orders with similar levels of required approval. He further stated that the approval of a draft change order was due to oversight.

Inadequate approval of change orders increases the risk that errors and irregularities will not be detected in a timely manner and may result in unwarranted changes and excess charges and expenses.

Recommendation 3

We recommend that the campus amend its procedures and convey to staff the revised procedures to ensure that both debit and credit and final change orders are approved by all required campus personnel.

Campus Response

We concur. Upon discovery of this error, the university immediately amended its processes to assure this type of error does not take place again. Formal/written communication of the procedure change will occur by September 1, 2010.

LABOR RATES AND BURDEN

Administration of labor rates and associated labor burden needed improvement.

We reviewed hourly labor rates and associated labor burden charged by two trade subcontractors for a sample of change orders and found the following unallowable labor rates and erroneous labor burden components:

- ▶ One trade subcontractor included labor rate costs for a field superintendent and calculated engineering services as a percentage of the required journeymen electrician hours. These types

of labor costs are only allowed as actual payroll. The inclusion of these unallowable labor costs inflated the labor cost for this trade subcontractor by \$21,225.

- ▶ Another trade subcontractor included erroneous labor burden components in its calculation of labor costs. The inclusion of these erroneous labor burden components inflated the labor cost for this trade subcontractor by \$89,976.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (1) states that the construction manager and trade contractors shall submit a fully detailed breakdown of the cost of every labor classification to be utilized on a proposed change on the hourly labor rate worksheet. The unit cost of labor shall be an accurate accounting of actual costs being paid.

The associate director of planning and administration stated that the construction manager firm should have been reviewing the labor rate costs and labor burden components before submitting the change orders to the campus.

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

Recommendation 4

We recommend that the campus pursue recovery of the \$111,201 in inflated labor costs submitted by the construction manager for unallowable labor rates and erroneous burden components charged by the two trade subcontractors and determine, as appropriate, if other change order work performed by these trade subcontractors had been cost-inflated in a similar manner.

Campus Response

We concur and plan to pursue recovery by October 1, 2010.

Recommendation 5

We recommend CPDC conduct training to ensure that hourly 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*.

Management Response

We agree. CPDC has recently implemented a monthly conference call training program, and this topic is already on the training schedule. This training should occur on September 16, 2010.

SECOND-TIER SUBCONTRACTORS

Administration of payments to second-tier subcontractors needed improvement.

We reviewed a sample of payments to second-tier subcontractors charged by a trade subcontractor and found a discrepancy between source documents maintained within the trade subcontractors' job files and accounting systems and the amount charged to the campus. The inclusion of erroneous second-tier subcontractor costs inflated change orders for this trade subcontractor by \$4,109.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (5) states that for any portion of the work performed by a subcontractor (any tier), the construction manager shall furnish to the Trustees a detailed estimate prepared and signed by the subcontractor of the cost of the subcontractor for performing the changed work.

The associate director of planning and administration stated that the construction manager firm should have been reviewing the payments to second-tier subcontractors before submitting the change orders to the campus.

Inadequate construction manager review of payments to second-tier subcontractors may result in increased project costs.

Recommendation 6

We recommend that the campus pursue recovery of the \$4,109 of the second-tier subcontractor erroneous costs that inflated change orders for the subcontractor and determine, as appropriate, if other change order work performed by this trade subcontractor had been cost-inflated in a similar manner.

Campus Response

We concur and plan to pursue recovery by October 1, 2010.

PROJECT COMPLETION AND CLOSEOUT

The campus did not issue a field instruction and change order to the construction manager when the campus began occupying the Library Addition and Renovation (Library) project for their intended use in February 2009, seven months prior to filing the Notice of Completion.

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 associate director of planning and administration stated that the failure to issue a field instruction and change order when the Library was occupied for its intended use was due to oversight.

Failure to issue a field instruction and change order to the construction manager when the campus begins occupying the project for its intended use prior to filing the Notice of Completion increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 7

We recommend that the campus reiterate to staff that a field instruction and change order should be issued to the construction manager when the campus begins occupying future projects for their intended use prior to filing the Notice of Completion.

Campus Response

We concur and have reiterated to our staff the need to process this field instruction and the subsequent change order. Formal/written communication will occur by September 1, 2010.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

Office of the Chancellor

James Corsar

Elvyra San Juan

Senior Chief of Construction Management (At time of review)

Assistant Vice Chancellor,

Capital Planning, Design and Construction

California State University, Fresno

John D. Welty

Robert Boyd

Kathy Johnson

Cynthia Teniente-Matson

Sara Wallet

Gary Wilson

President

Associate Vice President for Facilities Management

Associate Director, Planning and Administration

Vice President for Administration and Chief Financial Officer

Project Manager

Senior Director, Facilities Planning



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Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

562-951-4600
Fax 562-951-4971
bquillian@calstate.edu

MEMORANDUM

DATE: September 8, 2010

TO: Larry Mandel
University Auditor

FROM: Benjamin F. Quillian 
Executive Vice Chancellor and
Chief Financial Officer

SUBJECT: Audit Report No. 09-30
Library Addition and Renovation
California State University, Fresno



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.

Please accept my apologies for the tardiness of this response. I have asked the staff to give greater attention to meeting deadlines.

BFQ:JS:bn

Attachment

c: Ms. Elvyra F. San Juan
Mr. Larry Piper
Mr. Thomas M. Kennedy
Mr. James Sowerbrower

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

CONSTRUCTION

CALIFORNIA STATE UNIVERSITY, FRESNO

LIBRARY ADDITION AND RENOVATION

Audit Report 09-30

PROJECT DEVELOPMENT AND DESIGN

CONTRACT DOCUMENTS

Recommendation 1

We recommend that CPDC ensure that all CM at Risk projects receive proper plan checks prior to authorizing the campus to proceed with trade subcontractor bidding.

Management Response

We agree. We have modified the CM at Risk Model & Guidelines to require the University to obtain from the CM a letter to the University stating that the CM has completed its constructability and coordination review. Once the University receives this letter, and all of the plan checks are completed, the University may proceed to bid the trades.

CHANGE ORDER ADMINISTRATION

LABOR RATES AND BURDEN

Recommendation 5

We recommend CPDC conduct training to ensure that hourly 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*.

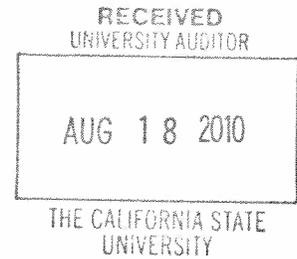
Management Response

We agree. CPDC has recently implemented a monthly conference call training program, and this topic is already on the training schedule. This training should occur on September 16, 2010.



CALIFORNIA
STATE
UNIVERSITY,
FRESNO

August 18, 2010



Memorandum

To: Larry Mandel
University Auditor
Office of the Chancellor

From: Cynthia Teniente-Matson *Cynthia Teniente-Matson*
Vice President for Administration and
Chief Financial Officer

Subject: **Responses to Incomplete Draft Library Addition and
Renovation Audit Report #09-30**

The University has reviewed the incomplete draft of the Library Addition and Renovation Audit Report #09-30. Attached are campus responses to the recommendations. Please let me know if you have any questions. Thank you.

Attachment

c: Dr. John Welty
Mr. Robert Boyd
Ms. Janice Mirza
Mr. Aaron Bolin
Mr. Gordon Eng

Office of the
Vice President
for Administration and
Chief Financial Officer

Harold H. Haak Administrative Center
Henry Madden Library
5200 N. Barton Ave. M/S ML52
Fresno, CA 93740-8014

559.278.2083
Fax 559.278.2928



CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
FRESNO
LIBRARY ADDITION AND RENOVATION
Audit Report 09-30

PROJECT DEVELOPMENT AND DESIGN

EXTRA SERVICES

Recommendation 2

We recommend that the campus reiterate to staff that ESA letters are to be updated to include the correct cost of the additional services and the current cumulative contract amount.

Campus Response

The University concurs. Procurement and Support Services, as well as Facilities Management personnel have noted this error and the need for more due diligence during this process has been communicated during our meetings. Formal/written communication will occur by September 1, 2010.

CHANGE ORDER ADMINISTRATION

APPROVAL

Recommendation 3

We recommend that the campus amend its procedures and convey to staff the revised procedures to ensure that both debit and credit and final change orders are approved by all required campus personnel.

Campus Response

The University concurs. Upon discovery of this error, the University immediately amended its processes to assure this type of error does not take place again. Formal/written communication of the procedure change will occur by September 1, 2010.

LABOR RATES AND BURDEN

Recommendation 4

We recommend that the campus pursue recovery of the \$111,201 in inflated labor costs submitted by the construction manager for unallowable labor rates and erroneous burden components charged by the two trade subcontractors and determine, as appropriate, if other change order work performed by these trade subcontractors had been cost-inflated in a similar manner.

Campus Response

We concur and plan to pursue recovery by October 1, 2010.

SECOND-TIER SUBCONTRACTORS

Recommendation 6

We recommend that the campus pursue recovery of the \$4,109 of the second-tier subcontractor erroneous costs that inflated change orders for the subcontractor and determine, as appropriate, if other change order work performed by this trade subcontractor had been cost-inflated in a similar manner.

Campus Response

We concur and plan to pursue recovery by October 1, 2010.

PROJECT COMPLETION AND CLOSEOUT

Recommendation 7

We recommend that the campus reiterate to staff that a field instruction and change order should be issued to the construction manager when the campus begins occupying future projects for their intended use prior to filing the Notice of Completion.

Campus Response

We concur and have reiterated to our staff the need to process this field instruction and the subsequent change order. Formal/written communication will occur by September 1, 2010.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 29, 2010

CHICO

MEMORANDUM

DOMINGUEZ HILLS

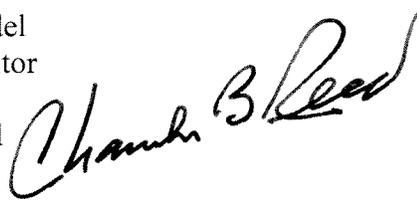
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 09-30 on the *Library Addition and Renovation*, California State University, Fresno

LONG BEACH

LOS ANGELES

In response to your memorandum of September 29, 2010, I accept the response as submitted with the draft final report on the *Library Addition and Renovation*, California State University, Fresno.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS