

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
FULLERTON
STUDENT RECREATION CENTER

Audit Report 08-54
April 9, 2009

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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
ESA	Extra Service Authorization
EO	Executive Order
GMP	Guaranteed Maximum Price
OUA	Office of the University Auditor
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

At its January 2008 meeting, the Board of Trustees directed the Office of the University Auditor (OUA) to continue its annual review of 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, Fullerton campus, the offices of construction management firm, C.W. Driver, and selected subcontractors from November 3, 2008, through December 12, 2008, and audited the Student Recreation Center 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 Student Recreation Center 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 [7]

Two Extra Service Authorization letters for architectural work, totaling \$46,991, were executed after the specified services were performed.

PRE-CONSTRUCTION AND BID PROCESS [7]

Bid normalization sheets for trade subcontractors were not maintained and used by the campus project manager to ensure an adequate review of change orders.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [8]

The campus did not request certified payroll records and hourly labor rate worksheets for the construction manager and each subcontractor, which prevented the verification of wage rates submitted for change order work. In addition, the campus had not developed a procedure to reconcile construction allowances to ensure that the amounts used by the construction manager were appropriate, accurately priced, and adequately documented.

CHANGE ORDER ADMINISTRATION [10]

Change orders were not always approved by all required campus personnel and supported by sufficient documentation. In addition, labor rates and associated labor burden charged by trade subcontractors were not always appropriate and accurate.

PROJECT COMPLETION AND CLOSEOUT [13]

The campus did not perform a review of the underlying transactions for the construction manager's direct material and labor costs totaling \$287,949 and \$191,110, respectively.

INTRODUCTION

BACKGROUND

In May 2001, the California State University (CSU), Fullerton students voted to support an increase in student body center fees to construct and operate the Student Recreation Center project. A student committee determined the programmatic and environmental features to be included and the preferred location for the center. The project was included in the campus master plan revision approved by the Board of Trustees (BOT) at its November 2003 meeting, and the architectural firm of Langdon Wilson was selected with extensive student participation.

In July 2005, the BOT approved schematic plans for the Student Recreation Center at a project cost of \$41,870,000, which included three separate phases: the Student Recreation Center, satellite central plant, and the pedestrian plaza and east walkway. In July 2006, the BOT approved the issuance of systemwide revenue bonds in an amount not-to-exceed \$28,915,000 and a student union reserve contribution of \$14,608,000. Revenue bonds yielding \$26,713,352 provided the majority of the project funding, and an additional \$13 million of Associated Students California State University, Fullerton, Inc., reserves were committed to allow for completion of the full scope of the Student Recreation Center and all associated phases. C.W. Driver was selected as the construction manager and received the Notice to Proceed for the first phase of the project on January 23, 2006. The final construction cost for the Student Recreation Center and the pedestrian plaza and east walkway phases was \$30,963,066. The Student Recreation Center opened on March 9, 2008, and the Notice of Completion was filed on June 5, 2008.

The Student Recreation Center is a two-story, 95,000 gross square foot facility, containing a three-court basketball gymnasium, with features for volleyball, badminton and various other sports, and an elevated running track. The facility also includes a two-story lobby with a climbing wall, two racquetball courts, three multipurpose rooms for group exercise activities, a spinning room, cardio room and theater, weight room, locker rooms with shower facilities, administrative offices, and an outdoor lap/recreation pool and lounging deck.

The CSU Fullerton campus managed the Student Recreation Center 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 success in completing the project on time and in budget lies with the construction manager, and not with the university. Further, university administrative costs and the need to "staff up" for the project are reduced, and 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 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 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 Student Recreation Center 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 for the general contractor or construction manager and trade subcontractors 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 Student Recreation Center and the pedestrian plaza and east walkway phases of this 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 construction manager and trade subcontractor 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 charged by the construction manager and trade subcontractors.
- ▶ 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

PROJECT DEVELOPMENT AND DESIGN

Two Extra Service Authorization (ESA) letters for additional architectural work, totaling \$46,991, were executed after the specified services were performed.

State University Administrative Manual (SUAM) §9208.02 states that extra services for professional service agreements call for the provision of services to be authorized in writing in advance.

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 director of the office of design and construction stated that one of the ESA letters was under cost negotiation after the services were provided and the second ESA letter was not timely executed due to oversight.

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

Recommendation 1

We recommend that the campus reiterate to staff that ESA letters are to be executed prior to the performance of the specified services.

Campus Response

We concur. The campus will reiterate to staff by May 31, 2009, that ESA letters are to be executed prior to the performance of the specified services.

PRE-CONSTRUCTION AND BID PROCESS

Bid normalization sheets for trade subcontractors were not maintained and used by the campus project manager to ensure an adequate review of change orders.

Bid normalization sheets are prepared during the subcontractor selection process to compile the true cost of performing all construction activities within a given project area. The bid normalization sheet includes the trade subcontractor base bid and other miscellaneous costs related to that trade. For example, the electrical subcontractor's bid normalization sheet included ten items totaling \$154,671. These items included an allowance for audio/video equipment, temporary lighting, and core drilling. Although the campus was present when the bid normalization sheets were prepared, copies were not requested. The bid normalization sheets for trade subcontractors should be referenced during any subsequent review of project change orders to ensure that the new project work was not in the original project bid.

Executive Order (EO) 672, *Delegation of Capital Outlay Management Authority and Responsibility*, dated July 25, 1997, states, in part, that the campus shall carry out all construction management activities and complete the project within the approved scope, schedule, and budget.

The director of the office of design and construction stated that the campus was unaware of the need for this procedure since there are no requirements for this in the various California State University (CSU) policies and procedures.

Failure to maintain and use bid normalization sheets may allow costs and activities that were included in the original project bid to be included in change orders, thereby increasing project cost.

Recommendation 2

We recommend that the campus establish procedures to maintain and use bid normalization sheets to ensure an adequate review of change orders.

Campus Response

We concur. The campus will consult with Capital Planning, Design and Construction (CPDC) to develop a written procedure by August 31, 2009, to maintain and use bid normalization sheets to ensure an adequate review of change orders.

CONSTRUCTION MANAGEMENT AND ACCOUNTING

CERTIFIED PAYROLLS

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

SUAM §9824.01 states that the campus shall request a minimum of the first week's certified payroll records from the general contractor and a minimum of the first week's certified payroll records from each subcontractor of any tier. Additionally, 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 certified payroll records, along with hourly labor rate worksheets, will allow a check on wage rates submitted for change order work.

The director of the office of design and construction stated that the campus mistakenly believed that a chancellor's office representative was to review the certified payroll for this project.

Failure to request and use certified payroll records and 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 3

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

Campus Response

We concur. The campus will reiterate to staff by June 30, 2009, that certified payroll records and hourly labor rate worksheets for the construction manager and each subcontractor are requested and used to verify wage rates submitted for change order work.

ALLOWANCES

The campus had not developed a procedure to reconcile construction allowances to ensure that the amounts used by the construction manager were appropriate, accurately priced, and adequately documented.

The contractual agreement included 11 allowances, totaling \$670,046, for items such as a climbing wall, audiovisual work, a moisture transmission sealer, and building signage. We found that the documents provided by the construction manager to demonstrate utilization of these allowances varied widely. We noted that the construction manager only provided letters with the amounts credited back when returning the unused portion of three allowances and found no documentation to support the complete use of two other allowances.

The Construction Manager at Risk (CM at Risk) contract states that allowances be utilized as required by work demands. Any unused portion of contract allowances will be credited back to the university. If the work exceeds the stated allowance amounts, then the university will issue a change order for the amount that exceeds the original allowance amount.

The director of the office of design and construction stated his belief that the allowances were adequately reconciled by the campus.

Failure to adequately reconcile construction allowances increases the risk that allowances will be used for inappropriate purposes and errors and irregularities will not be detected.

Recommendation 4

We recommend that the campus develop a written procedure and reconcile construction allowances to ensure the amounts used by the construction manager are appropriate, accurately priced, and documented.

Campus Response

We concur. The campus will consult with CPDC to develop a written procedure by August 31, 2009, to reconcile construction allowances to ensure the amounts used by the construction manager are appropriate, accurately priced, and documented.

CHANGE ORDER ADMINISTRATION

APPROVAL

Change orders were not always approved by all required campus personnel.

Our review of all project change orders disclosed that one change order that included a credit of \$113,607 for value engineering was not approved by either the associate vice president of facilities management or the vice president of administration and finance.

The CSU *Construction Management Project Administration Reference Manual* §4.05c states that the construction administrator (director of the office of design and construction) 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 contractor 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 director of the office of design and construction stated that the one change order in question was not signed by the associate vice president of facilities management or the vice president of administration and finance because the campus operational plan for delegation of capital outlay management authority addresses the need for higher levels of approval when a change increases the cost of a project by an amount in excess of the director's signing authority. He added that the one line item in question on this one change order was a credit.

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.

Recommendation 5

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

Campus Response

We concur. The campus will amend its Operational Plan for Delegation of Capital Outlay Authority and convey to staff by May 31, 2009, a revised procedure to ensure that both debit and credit change orders are approved by all required campus personnel.

DOCUMENTATION

Change orders were not always supported by sufficient documentation.

Our review of 12 project change orders disclosed that two change orders for the purchase of audio/video equipment and additional work for the plaza area did not include complete cost information.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01a states, in part, that the construction manager must keep and submit time and materials records verified by the construction inspector to substantiate its costs and to furnish such proof.

The director of the office of design and construction stated that additional backup documentation was not included with the change orders since it was included in other project files.

Insufficient supporting documentation for change orders increases the risk that errors and irregularities will not be detected.

Recommendation 6

We recommend that the campus reiterate procedures to staff and conduct training to ensure that change orders are supported by sufficient documentation.

Campus Response

We concur. The campus will reiterate procedures to staff and conduct training by August 31, 2009, to ensure that change orders are supported by sufficient documentation.

LABOR RATES AND BURDEN

Administration of labor rates and associated labor burden needed improvement.

Our review of hourly and premium labor rates and the associated labor burden charged by four trade subcontractors disclosed that:

- ▶ One trade subcontractor included labor burden components that were explicitly contractual overhead components. Specifically, the inclusion of drawings and small tools in the labor burden rate inflated the labor cost on change orders by \$12,908.

- ▶ The premium labor rate charged by the same trade subcontractor exceeded the amount indicated on hourly labor rate worksheets provided to the construction manager. The \$12.83 excess premium hourly rate, plus markup for overhead and profit, resulted in \$9,886 of excess cost.
- ▶ The hourly labor rate worksheets for two other trade subcontractors did not provide sufficient information to determine if the rate charged for additional work on the project was appropriate.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (4) states that the markups allowed on the direct cost of changed work include all incidental overhead support costs and profit. Such incidental overhead support costs include as-built drawings and small tools.

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 director of the office of design and construction stated that the campus did not receive the hourly labor rate worksheets from the construction manager, although they understand that the construction manager maintained such worksheets. He further stated that the construction manager should have been reviewing the trade subcontractor labor rates submitted on change orders to the hourly labor rate worksheets before submitting the change orders to the campus.

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

Recommendation 7

We recommend that the campus:

- a. Pursue recovery of the \$22,794 in labor rate and burden costs submitted by the construction manager for unallowable labor burden components and excess premium hourly rates charged by a trade subcontractor.
- 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

We concur. The campus will:

- a. Pursue the recovery by June 30, 2009, of the costs submitted by the construction manager for unallowable labor burden components and excess premium hourly rates charged by a trade subcontractor.
- b. Conduct staff training by August 31, 2009, 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 CSU *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

PROJECT COMPLETION AND CLOSEOUT

The campus did not perform a review of the underlying transactions for the construction manager's direct material and labor costs totaling \$287,949 and \$191,110, respectively.

EO 672, *Delegation of Capital Outlay Management Authority and Responsibility*, dated July 25, 1997, states, in part, that the campus shall carry out all construction management activities and complete the project within the approved scope, schedule, and budget.

The director of design and construction stated that the campus did receive and review the construction manager's direct material and labor; however, unfortunately this documentation was not in the project files at the time of the audit.

Failure to review the construction manager's direct material and labor costs increases the risk that errors and irregularities will not be detected.

Recommendation 8

We recommend that the campus conduct staff training on the review of construction manager direct material and labor costs in accordance with the CM at Risk, Version 2 agreement. The campus should note that the CM at Risk, Version 2 agreement revised the construction fee to include most activities that would generate direct material and labor costs by the construction manager.

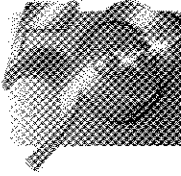
Campus Response

We concur. The campus will conduct staff training by August 31, 2009, on the review of construction manager direct material and labor costs in accordance with the new CM at Risk, Version 2 agreement.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
<u>Office of the Chancellor</u>	
James Corsar	Senior Chief of Construction Management
Tom Kennedy	Chief of Architecture and Engineering
Elvyra San Juan	Assistant Vice Chancellor, Capital Planning, Design and Construction
James Sowerbrower	Chief of Construction Management
<u>California State University, Fullerton</u>	
Milton A. Gordon	President
Jack Bage	Associate Director of the Office of Design and Construction
Jay Bond	Associate Vice President for Facilities Management
Beverly Burelli	Project Management Assistant
Pat Carroll	Executive Assistant to the President
Naomi Goodwin	Assistant Vice President for Administration and Finance
Willie Hagan	Vice President for Administration and Finance/ Chief Financial Officer
Stephen Halcum	Consulting Project Manager
Bahram Hatefi	Director of Internal Audit
Michael Hatswell	Chief Campus Inspector
Michael Smith	Director of the Office of Design and Construction

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RECEIVED
UNIVERSITY AUDITOR

MAY 12 2009

THE CALIFORNIA STATE
UNIVERSITY

DATE: May 05, 2009

TO: Larry Mandel
University Auditor

FROM: Milton A. Gordon
President *MAG*

SUBJECT: Response for Student Recreation Center Audit Report 08-54

I am pleased to forward California State University, Fullerton's official response to the recommendations in the Student Recreation Center Audit Report 08-54.

Once again, we would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying meaningful ways to improve CSUF's construction management in compliance with state and CSU guidelines.

The Campus Internal Auditor, Bahram Hatefi, will also forward the responses to you electronically for your convenience. Should you have questions, please contact Bahram at 714-278-7669 or bhatefi@fullerton.edu.

Attachments

cc: Jay Bond, Associate Vice President for Facilities Management
Pat Carroll, Executive Assistant to the President
Naomi Goodwin, Assistant Vice President, Administration & Finance
Willie Hagan, Vice President, Administration & Finance CFO
Bahram Hatefi, Director of CSUF Internal Audit
Michael Smith, Director of the Office of Design and Construction

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
FULLERTON
STUDENT RECREATION CENTER
Audit Report 08-54

PROJECT DEVELOPMENT AND DESIGN

Recommendation 1

We recommend that the campus reiterate to staff that ESA letters are to be executed prior to the performance of the specified services.

Campus Response

We concur, and the campus will reiterate to staff by May 31, 2009 that ESA letters are to be executed prior to the performance of the specified services.

PRE-CONSTRUCTION AND BID PROCESS

Recommendation 2

We recommend that the campus establish procedures to maintain and use bid normalization sheets to ensure an adequate review of change orders.

Campus Response

We concur, and the campus will consult with CPDC to develop a written procedure by August 31, 2009 to maintain and use bid normalization sheets to ensure an adequate review of change orders.

CONSTRUCTION MANAGEMENT AND ACCOUNTING

CERTIFIED PAYROLLS

Recommendation 3

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

Campus Response

We concur, and the campus will reiterate to staff by June 30, 2009 that certified payroll records and hourly labor rate worksheets for the construction manager and each subcontractor are requested and used to verify wage rates submitted for change order work.

ALLOWANCES

Recommendation 4

We recommend that the campus develop a written procedure and reconcile construction allowances to ensure the amounts used by the construction manager are appropriate, accurately priced, and documented.

Campus Response

We concur, and the campus will consult with CPDC to develop a written procedure by August 31, 2009 to reconcile construction allowances to ensure the amounts used by the construction manager are appropriate, accurately priced, and documented.

CHANGE ORDER ADMINISTRATION

APPROVAL

Recommendation 5

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

Campus Response

We concur, and the campus will amend its Operational Plan for Delegation of Capital Outlay Authority and convey to staff by May 31, 2009 a revised procedure to ensure that both debit and credit change orders are approved by all required campus personnel.

DOCUMENTATION

Recommendation 6

We recommend that the campus reiterate procedures to staff and conduct training to ensure that change orders are supported by sufficient documentation.

Campus Response

We concur, and the campus will reiterate procedures to staff and conduct training by August 31, 2009 to ensure that change orders are supported by sufficient documentation.

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LABOR RATES AND BURDEN

Recommendation 7

We recommend that the campus:

- a. Pursue recovery of the \$22,794 in labor rate and burden costs submitted by the construction manager for unallowable labor burden components and excess premium hourly rates charged by a trade subcontractor.
- 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

We concur, and the campus will:

- 1) Pursue the recovery, by June 30, 2009 of the costs submitted by the construction manager for unallowable labor burden components and excess premium hourly rates charged by a trade subcontractor.
- 2) Conduct staff training by August 31, 2009 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 *CSU Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

PROJECT COMPLETION AND CLOSEOUT

Recommendation 8

We recommend that the campus conduct staff training on the review of construction manager direct material and labor costs in accordance with the CM at Risk, Version 2 agreement. The campus should note that the CM at Risk, Version 2 agreement revised the construction fee to include most activities that would generate direct material and labor costs by the construction manager.

Campus Response

We concur, and the campus will conduct staff training by August 31, 2009 on the review of construction manager direct material and labor costs in accordance with the new CM at Risk, Version 2 agreement.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 11, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

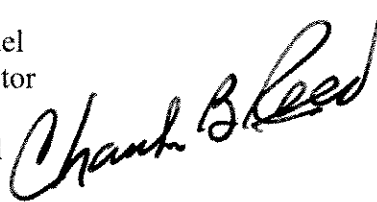
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor



FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 08-54 on the *Student Recreation Center*,
California State University, Fullerton

LONG BEACH

LOS ANGELES

In response to your memorandum of June 11, 2009, I accept the response as submitted with the draft final report on the *Student Recreation Center*, California State University, Fullerton.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

Enclosure

SACRAMENTO

c: Dr. Milton A. Gordon, President
Dr. Bahram Hatefi, Director, Internal Audit

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS