

**CONSTRUCTION**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**  
**STUDENT RECREATION CENTER**

**Audit Report 10-13**  
**September 16, 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
CSUB	California State University, Bakersfield
EO	Executive Order
FPDO	Facilities Planning, Development and Operations
GMP	Guaranteed Maximum Price
OUA	Office of the University Auditor
SRC	Student Recreation Center
SUAM	State University Administrative Manual

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## **EXECUTIVE SUMMARY**

At its January 2010 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, Bakersfield campus and the offices of the construction manager and selected subcontractors from May 10, 2010, through June 4, 2010, and audited the Student Recreation Center (SRC) 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 SRC 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.

### **PRE-CONSTRUCTION AND BID PROCESS [7]**

The person who recorded bids on the project fee proposal sheet for selection of the construction manager did not sign the document to certify its accuracy. In addition, the campus did not ensure that the construction manager included all required trade subcontractors on its expanded list of subcontractors submitted with its Guaranteed Maximum Price contract documents or received approval for trade subcontractor substitution.

### **CONSTRUCTION MANAGEMENT AND ACCOUNTING [9]**

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

### **CHANGE ORDER ADMINISTRATION [10]**

An unallowable burden component and an erroneous labor rate charged by two trade subcontractors inflated labor costs by \$2,373. In addition, the inclusion of erroneous second-tier subcontractor costs inflated change orders for one trade subcontractor by \$33,375.

### **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 SRC for its intended use on April 30, 2008, three months prior to filing the Notice of Completion.

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## INTRODUCTION

### **BACKGROUND**

In May 2005, the California State University, Bakersfield (CSUB) students approved an increase in student body center fees to construct and operate a recreation facility. In September 2005, the Board of Trustees (BOT) approved an amendment to the fiscal year 2005/06 Non-State Funded Capital Outlay Program, which included \$22,742,000 for preliminary plans, working drawings, construction, and equipment for the Student Recreation Center (SRC) project. In October 2005, CSUB executed an agreement with S.C. Anderson, Inc. for pre-construction services that included design and bid phase services; and in December 2005, the campus executed an agreement with the architectural firm of Sink Combs Dethlefs for services related and incidental to the design and construction of the SRC project. In May 2006, the BOT approved schematic plans for the SRC with funding from issuance of systemwide revenue bonds, to be paid from student fees. In May 2007, the BOT approved the issuance of these bonds in an amount not-to-exceed par value of \$24,015,000.

In May 2007, CSUB executed an agreement with S.C. Anderson, Inc. at a construction cost of \$17,059,115 and issued the Notice to Proceed on June 5, 2007, with a contract completion date of August 31, 2008. However, due to various construction delays, the project was not completed until March 12, 2009, when the State Fire Marshal granted a Certificate of Occupancy to the campus. On January 28, 2010, the campus executed a change order with S.C. Anderson, Inc. for \$335,214 to reimburse the campus for additional costs incurred due to the construction manager's extended construction time. The SRC opened on April 30, 2009, and the campus filed the Notice of Completion on August 14 2009.

The SRC is a two-story, 75,000 square foot facility, including a three-court gymnasium for basketball, volleyball, badminton and various other sports and an elevated three-lane jogging/walking track. The facility's centerpiece is a 34-foot high freestanding rock wall capable of accommodating up to seven roped climbers simultaneously. The SRC fitness area is equipped with 60 cardiovascular machines, free weights, variable resistance weight machines, and 24 LCD big-screen televisions. The facility also includes specialized exercise rooms, meeting space, and administrative offices, as well as an adjacent lighted outdoor sports field.

The CSUB campus managed the SRC 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 SRC 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 SRC 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.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **PRE-CONSTRUCTION AND BID PROCESS**

#### **BID CERTIFICATION**

The person who recorded bids on the project fee proposal sheet for selection of the construction manager did not sign the document to certify its accuracy.

State University Administrative Manual (SUAM) §9760 states that the actual bid opening must adhere to certain procedures, which include the person responsible for recording the bids signing the abstract of bids form to certify that it is a true tabulation of bids received.

The vice president of business and administrative services stated that campus procedures require the director of procurement to sign all fee proposal sheets; however, the position was vacant when the Student Recreation Center (SRC) project was bid. He further stated that he was present at the bid opening and noted that the process was performed correctly. He added that the fee proposal sheet was not signed due to oversight.

Failure to ensure certification of the project fee proposal sheets by the person who recorded the bids increases the risk of bidding irregularities and incorrect construction manager selection, and may result in increased project costs.

#### **Recommendation 1**

We recommend that the campus reiterate to staff that the project fee proposal sheet should be signed and certified for accuracy by the person who records the bids.

#### **Campus Response**

We concur. The director of procurement and contract services shall conduct a training session regarding the bid process for major cap projects with staff. This topic, regarding project fee proposal sheets, will be covered in that training to be conducted before January 1, 2011.

#### **SUBCONTRACTORS**

The campus did not ensure that the construction manager included all required trade subcontractors on its expanded list of subcontractors submitted with its Guaranteed Maximum Price (GMP) contract documents or received approval for trade subcontractor substitution.

We found that:

- ▶ Two trade subcontractors paid in excess of one-half of one percent of the base contract were not included on the expanded list of subcontractors provided to the campus with the GMP contract documents. The total value of the two trade subcontracts was \$288,200.

- ▶ The construction manager did not receive approval for one trade subcontractor substitution.

Public Contract Code §4104 and §4110 state that the specifications prepared for the work or the general conditions under which bids will be received shall set forth that the prime contractor will provide the name and location of each subcontractor who will perform work or labor or render services to the prime contractor in an amount in excess of one-half of one percent of the prime contractor's total bid. A prime contractor violating any of the provisions of this chapter (the Subletting and Subcontracting Fair Practices Act, Public Contract Code §4100 *et seq.*) violates his or her contract and the awarding authority may exercise options, including cancelling the contract or assessing the prime contractor a penalty in an amount of not more than ten percent of the amount of the subcontract involved.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §4.04.c states that when requested by the construction administrator, the construction manager shall submit a subcontractor status report, which will be compared with the expanded list of subcontractors. If any subcontractors are still outstanding at the time of submittal, a follow-up request will be made. Further, if any firms are substituted without approval of the Trustees in accordance with Section 4107(a) of the Public Contract Code, or if subcontractors are added and perform work in excess of one-half of one percent of base contract, penalties are applicable per Section 4110 of the Public Contract Code.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §4.04 states that the construction manager shall not substitute any trade subcontractor in place of a trade subcontractor identified and agreed upon at the time of agreeing to the GMP construction agreement except as authorized by law, which requires approval of the Trustees.

The assistant vice president of facilities planning, development and operations (FPDO) stated that the campus was unaware that the construction manager had not listed all required trade subcontractors on the expanded list of subcontractors and substituted a trade subcontractor without approval.

Failure to ensure that the construction manager provides a complete expanded list of subcontractors and receives approval for trade subcontractor substitution results in non-compliance with the Subletting and Subcontracting Fair Practices Act and increases the risk that violations of the act will not be detected.

## **Recommendation 2**

We recommend that the campus:

- a. Reiterate to staff and future construction managers that a complete expanded list of subcontractors must be submitted and any additions or substitutions must be communicated and approved.
- b. Consider assessing a penalty of not more than \$28,820 to the construction manager for violation of the Contract General Conditions and Public Contract Code.

### **Campus Response**

We concur.

- a. The director of procurement and contract services, in coordination with the assistant vice president of facilities planning, development, and operations, will conduct staff training to ensure that for future projects an expanded list of subcontractors is submitted and reviewed and any additions or substitutions are appropriately communicated and approved. Furthermore, CPDC has recently started a monthly conference call training program that has covered this topic, as well as other topics. On-campus training in regard to this should take place before January 1, 2011.
- b. The director of procurement and contract services will discuss this with the assistant vice president of facilities planning, development, and operations and the vice president of business and administrative services to determine if the campus wants to pursue this action. A decision will occur no later than the end of November 2010 whether to pursue this or not.

### **CONSTRUCTION MANAGEMENT AND ACCOUNTING**

The campus did not request certified payroll records and hourly labor rate worksheets for the construction manager and each trade 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 FPDO assistant vice president stated that the campus not collecting hourly labor rate worksheets from the construction manager and each trade subcontractor was an oversight. He further stated that the campus did not collect certified payrolls from the construction manager and each trade subcontractor as the chancellor's office recommended that the campus rely on the construction manager to maintain them in the construction trailer; however, not taking custody of these certified payroll records at the end of the project was an oversight.

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 general contractor and each subcontractor should be requested and used to verify wage rates submitted for change order work.

### **Campus Response**

We concur, and the director of procurement and contract services has reiterated to staff the need to properly monitor this. Furthermore, this topic shall be covered in a campus training that will occur before January 1, 2011.

## **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 associated labor burden charged by two trade subcontractors for a sample of change orders and found the following unallowable labor burden component and erroneous labor rate:

- ▶ One trade subcontractor included consumables as a labor burden component in its calculation of labor costs. The inclusion of this unallowable labor burden component inflated the labor cost for this trade subcontractor by \$1,542.
- ▶ Another trade subcontractor included an erroneous labor rate in its calculation of labor costs. The inclusion of this erroneous labor rate inflated the labor cost for this trade subcontractor by \$831.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (2) states that the cost for consumed materials may be charged on reasonable estimate basis, but may not be a percentage of labor.

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 FPDO assistant vice president stated that the construction manager firm should have been reviewing the labor burden components and labor rate costs 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:

- a. Pursue recovery of the \$2,373 in inflated labor costs submitted by the construction manager for an unallowable burden component and an erroneous labor rate 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.
- b. Conduct staff 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 the Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

#### **Campus Response**

We concur.

- a. We plan to pursue recovery by January 1, 2011.
- b. The assistant vice president of facilities planning, development and operations will conduct staff training to ensure that hourly labor rates and associated labor burden are appropriate and accurate in accordance with *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*. This training shall occur before January 1, 2011.

### **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 \$33,375.

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 FPDO assistant vice president stated that the construction manager firm should have been reviewing the payments to second-tier subcontractors before submitting the change orders to the campus.

Failure to adequately review payments to second-tier subcontractors may result in increased project costs.

**Recommendation 5**

We recommend that the campus pursue recovery of the \$33,375 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 January 1, 2011.

**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 SRC for its intended use on April 30, 2008, three 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 FPDO assistant vice president stated that the SRC project was substantially complete when the State Fire Marshal granted the certificate of occupancy on March 12, 2009; however, two punch list items remained, not allowing the Notice of Completion to be filed until August 12, 2009. He further stated that the campus mistakenly believed that a field instruction and change order were required only when partial occupancy was granted or punch list items remained that had significant impact on occupancy.

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 6**

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. Via memorandum, and by December 1, 2010, in regard to future projects, staff will be directed to issue a field instruction and change order to the construction manager/contractor whenever the campus begins occupying future projects for their intended use prior to filing the Notice of Completion. This topic will be addressed in an on-campus staff training to be conducted before January 1, 2011.

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## APPENDIX A: PERSONNEL CONTACTED

### Name

### Title

#### Office of the Chancellor

Elvyra San Juan

Assistant Vice Chancellor,  
Capital Planning, Design and Construction

#### California State University, Bakersfield

Horace Mitchell

President

Michael Chavez

Director of Procurement and Contract Services

Patrick Jacobs

Assistant Vice President, Facilities Planning, Development and  
Operations

Michael Neal

Vice President, Business and Administrative Services

Douglas Wade

Assistant Vice President, Fiscal Services



# CSU Bakersfield

Business and Administrative Services

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November 5, 2010

Mr. Larry Mandel  
University Auditor  
Office of the Chancellor  
California State University  
401 Golden Shore 4th Floor  
Long Beach, CA 90802-4210

RECEIVED  
UNIVERSITY AUDITOR  
NOV - 5 2010  
THE CALIFORNIA STATE  
UNIVERSITY

Re: University's Responses to Recommendations Contained in Student Recreation Center  
Construction Audit Report 10-13

Dear Mr. Mandel: *Larry*

Attached are the University's responses to the recommendations contained in Audit Report  
Number 10-13

If you have any further questions please contact my office at 661-654-2287.

Sincerely,

*Michael A Neal*

Michael A Neal  
Vice President for Business  
and Administrative Services

Enclosure

c: Dr. Horace Mitchell, President  
Douglas Wade, Assistant Vice President, Fiscal Services

**CONSTRUCTION**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**STUDENT RECREATION CENTER**

**Audit Report 10-13**

**PRE-CONSTRUCTION AND BID PROCESS**

**BID CERTIFICATION**

**Recommendation 1**

We recommend that the campus reiterate to staff that the project fee proposal sheet should be signed and certified for accuracy by the person who records the bids.

**Campus Response**

We concur. The Director of Procurement and Contract Services shall conduct a training session regarding the bid process for major cap projects with staff. This topic, regarding project fee proposal sheets, will be covered in that training to be conducted before January 1, 2011.

**SUBCONTRACTORS**

**Recommendation 2**

We recommend that the campus:

- a. Reiterate to staff and future construction managers that a complete expanded list of subcontractors must be submitted and any additions or substitutions must be communicated and approved.
- b. Consider assessing a penalty of not more than \$28,820 to the construction manager for violation of the Contract General Conditions and Public Contract Code.

**Campus Response**

- a. We agree. The Director of Procurement & Contract Services in coordination with the AVP of Facilities Planning, Development & Operations will conduct staff training to ensure that for future projects an expanded list of subcontractors is submitted and reviewed and any additions or substitutions is appropriately communicated and approved. Furthermore, CPDC has recently started a monthly conference call training program that has covered this topic as well as other topics. On-campus training in regards to this should take place before January 1, 2011.

- b. We agree. The Director of Procurement & Contract Services will discuss this with the AVP of Facilities Planning, Development & Operations and the VP of Business and Administrative Services to determine if the campus wants to pursue this action. A decision will occur not later than the end of November 2010 whether to pursue this or not.

## CONSTRUCTION MANAGEMENT AND ACCOUNTING

### Recommendation 3

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

### Campus Response

We concur and the Director of Procurement and Contract Services has reiterated to staff the need to properly monitor this. Furthermore, this topic shall be covered in a campus training that will occur before January 1, 2011.

## CHANGE ORDER ADMINISTRATION

### LABOR RATES AND BURDEN

#### Recommendation 4

We recommend that the campus:

- a. Pursue recovery of the \$2,373 in inflated labor costs submitted by the construction manager for an unallowable burden component and an erroneous labor rate 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.
- b. Conduct staff 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 the Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

### Campus Response

- a. We concur and plan to pursue recovery by January 1, 2011.
- b. We concur. The AVP of Facilities Planning, Development & Operations will conduct staff training to ensure that hourly labor rates and associated labor burden are appropriate and accurate, in accordance, with Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects. This training shall occur before January 1, 2011.

## **SECOND-TIER SUBCONTRACTORS**

### **Recommendation 5**

We recommend that the campus pursue recovery of the \$33,375 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 January 1, 2011.

## **PROJECT COMPLETION AND CLOSEOUT**

### **Recommendation 6**

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. Via memorandum, and by December 1, 2010, in regards to future projects, staff will be directed to issue a field instruction and change order to the construction manager/contractor whenever the campus begins occupying future projects for their intended use prior to filing the Notice of completion. This topic will be addressed in an on-campus staff training to be conducted before January 1, 2011.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

November 24, 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 10-13 on the *Student Recreation Center*,  
California State University, Bakersfield

LONG BEACH

LOS ANGELES

In response to your memorandum of November 24, 2010, I accept the response as submitted with the draft final report on the *Student Recreation Center*, California State University, Bakersfield.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS