

**CONSTRUCTION**

**CALIFORNIA STATE UNIVERSITY,  
SAN BERNARDINO**

**SCIENCE BUILDINGS RENOVATION AND ADDITION PHASE II**

**Audit Report 10-16  
December 21, 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
CSUSB	California State University, San Bernardino
ESA	Extra Service Authorization
EO	Executive Order
GMP	Guaranteed Maximum Price
OGC	Office of General Counsel
OUA	Office of the University Auditor
Science Buildings	Science Buildings Renovation and Addition Phase II
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, San Bernardino campus and the offices of the construction manager and selected subcontractors from August 30, 2010, through October 1, 2010, and audited the Science Buildings Renovation and Addition Phase II (Science Buildings) 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 Science Buildings 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 [6]**

Service agreements were not always approved by the California State University Office of the General Counsel before services were rendered. In addition, certain extra service authorization letters were not authorized until after the specified services were performed.

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

The campus did not ensure that all trade subcontractors required to be on the construction manager's final expanded list of subcontractors were included on that list.

### **CHANGE ORDER ADMINISTRATION [9]**

Erroneous labor rates and associated burden and unallowable labor mark-ups charged by one trade subcontractor and erroneous labor hours charged by another trade subcontractor increased labor costs by \$11,020. In addition, a trade subcontractor increased material costs by \$11,944.

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## INTRODUCTION

### **BACKGROUND**

In January 2003, California State University, San Bernardino (CSUSB) received funding appropriations and began planning for the renovation of the Biological Science Building, Physical Science Building, and Vivarium Animal House. In January 2004, the campus executed an agreement with the architectural firm Bauer and Wiley Architects at an amount not to exceed \$1,350,000 for services related and incidental to the design and construction of the CSUSB Science Buildings Renovation and Addition Phase II (Science Buildings) project. In September 2004, Capital Planning, Design and Construction (CPDC) at the chancellor's office approved schematic plans for the Science Buildings project at a construction cost of \$17,602,000. Subsequently, the campus received additional funding from a Federal Emergency Management Agency grant, deferred maintenance funds, capital renewal funds, and additional campus funds, elevating the construction budget to \$27,377,000.

In May 2004, the campus executed an agreement for preconstruction services, which included design and bid phase services, with Douglas E. Barnhart, Inc. as the construction manager. In December 2005, the campus executed a second agreement with Douglas E. Barnhart, Inc., for demolition and abatement services at a construction cost of \$1,428,553. The Notice to Proceed was issued on February 24, 2006, with a completion date of January 27, 2008. In May 2006, the campus executed an agreement with Douglas E. Barnhart, Inc. for the remaining construction services, at a construction cost of \$19,658,704. The Notice to Proceed was issued on May 10, 2006, with a completion date of April 11, 2008. The campus received Certificates of Occupancy for the Biological Science Building and for the Physical Science Building on May 3, 2007, and July 8, 2008, respectively. It filed a Notice of Completion for the entire project on October 17, 2008. On November 11, 2008, Douglas E. Barnhart, Inc., submitted a claim for outstanding changes and disputes for \$1,996,340. The campus settled the claim on March 28, 2009, for \$850,000.

The Science Buildings project included the renovation of the Biological Sciences and Physical Sciences buildings and the Vivarium Animal House and encompassed about 112,300 gross square feet of classrooms, laboratory space, and faculty office space. The project also included the installation of new electrical, mechanical, plumbing, and telecommunication services and new fire/life safety systems, as well as the abatement of hazardous materials and seismic retrofitting of each building.

The CSUSB campus managed the Science Buildings 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 Board of Trustees (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 that impact the plan. Certification is continuous unless a 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 California State University (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 Science Buildings 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 Science Buildings 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**

### **PROJECT DEVELOPMENT AND DESIGN**

#### **SERVICE AGREEMENTS**

Service agreements were not always approved by the California State University (CSU) Office of the General Counsel (OGC) before services were rendered.

We reviewed the service agreements for all project architects and consultants and found that:

- ▶ The agreement with an architectural firm for master planning services was approved by the OGC on April 15, 2002, four months after the first services were provided.
- ▶ The agreement with a consulting firm for program verification services was approved by the OGC on December 10, 2002, one month after services were provided.
- ▶ The agreement with a consulting firm for cost estimating support services was approved by the OGC on March 13, 2007, seven months after the first services were provided.

State University Administrative Manual (SUAM) §9210.01 states that agreements for professional services are not in force or effect until approved by the CSU OGC.

The campus director and executive dean of capital planning, design and construction (CPDC) stated that the lack of timely general counsel approval was due to oversight.

The absence of fully executed agreements increases the risk of litigation and implied obligations due to misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 1**

We recommend that the campus ensure that all future project service agreements are approved by the OGC before services are rendered.

#### **Campus Response**

We concur with the recommendation. CPDC will distribute a written directive to all office managers and applicable administrative support staff that an executed copy of the service agreement must be on file prior to requesting services from the project firm. The directive is to be incorporated into the CSUSB – CPDC Construction Management Manual.

Completion date: February 25, 2011

## **EXTRA SERVICES**

Certain extra service authorization (ESA) letters were not authorized until after the specified services were performed.

We reviewed 11 ESA letters for architectural services related to additional design-phase development costs, construction-phase design costs, reimbursable expenses, and additional days of site visits, and we found that four of the letters were not authorized until after the services were performed. In addition, we reviewed four ESA letters for additional inspection services, and we found that one of the letters was not authorized until after the services were performed.

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 campus CPDC director and executive dean stated that the ESA letters were not authorized in a timely manner 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 must be authorized prior to the performance of the specified services.

### **Campus Response**

We concur with the recommendation. A written directive will be distributed to all office managers and applicable administrative support staff stating that an executed copy of the ESA must be on file prior to requesting these services from the project firm. The directive will be incorporated into the CSUSB – CPDC Construction Management Manual.

Completion date: February 25, 2011

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

The campus did not ensure that all trade subcontractors required to be on the construction manager's final expanded list of subcontractors were included on that list.

We found that one trade subcontractor who was paid in excess of one-half of one percent of the base contract was not included on the final expanded list of subcontractors provided to the campus, as

required by the Public Contract Code and the Contract General Conditions. The total value of the trade subcontract was \$445,173.

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 campus CPDC director and executive dean stated that the campus was unaware that the construction manager had not listed all required trade subcontractors on the expanded list of subcontractors.

Failure to ensure that the construction manager provides a complete expanded list of subcontractors 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 3**

We recommend that the campus:

- a. Reiterate to staff and future construction managers that the expanded list of subcontractors must include all subcontractors who will be paid in excess of one-half of one percent of the base contract.
- b. Consider assessing a penalty of no more than \$44,517 to the construction manager for violation of the Public Contract Code.

## **Campus Response**

We concur.

- a. CPDC will ensure that all construction project managers are educated and will reiterate the importance to review the documentation of expanded subcontractors lists to be inclusive of all subcontractors who will be paid in excess of one-half of one percent of the base contract.
- b. There was a large claim by the contractor on this project. After numerous meetings and negotiations, a global settlement was signed between the university and the contractor with the following statement: "This global settlement shall bring full and final settlement to all claims by either party on the project." Therefore, this penalty assessment is considered part of the global settlement.

Completion date: February 25, 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 the associated burden charged by two trade subcontractors for a sample of change orders, and we found errors in labor rates, reported hours, and associated burden, as well as unallowable labor mark-ups, as follows:

- ▶ One trade subcontractor included an erroneous labor rate, a labor burden for vehicles provided to employees, and a ten percent mark-up for labor supervision. This increased labor costs by \$5,242.
- ▶ The labor hours recorded for change orders maintained within the job file of another trade subcontractor did not agree with amounts charged to the campus. This increased labor costs by \$5,778.

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 a 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 campus CPDC director and executive dean stated that the campus did not have the resources required to conduct a review of the change orders that would be thorough enough to find inflated rates such as these.

Failure to ensure that hourly labor rates and the associated labor burden are correct may result in increased project costs.

#### **Recommendation 4**

We recommend that the campus:

- a. Pursue recovery of the \$11,020 in inflated labor costs resulting from various inflated rates charged by the 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. There was a large claim by the contractor on this project. After numerous meetings and negotiations, a global settlement was signed between the university and the contractor with the following statement: “This global settlement shall bring full and final settlement to all claims by either party on the project.” Therefore, this cost recovery is considered part of the global settlement.
- b. Staff training will be conducted for labor rates and associated labor burden charged by trade subcontractors.

Completion date: February 25, 2011

#### **MATERIAL COSTS**

Administration of project material costs needed improvement.

We reviewed a sample of material costs charged by a trade subcontractor and found discrepancies between source documents maintained within the trade subcontractors’ job files and the amount charged to the campus. This increased material costs by \$11,944.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (2) states that construction manager’s costs are allowed for the cost of materials directly

required for the performance of the changed work. Such cost of materials may include the costs of transportation, sales tax, and delivery if necessarily incurred.

The campus CPDC director and executive dean stated that the campus did not have the resources required to conduct a review of the change orders that would be thorough enough to find inflated rates such as these.

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

### **Recommendation 5**

We recommend that the campus:

- a. Pursue recovery of the \$11,944 in inflated material costs charged by the trade subcontractor and determine, as appropriate, if other change order work performed by the trade subcontractor had been cost-inflated in a similar manner.
- b. Conduct staff training to ensure that material costs 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. There was a large claim by the contractor on this project. After numerous meetings and negotiations, a global settlement was signed between the university and the contractor with the following statement: “This global settlement shall bring full and final settlement to all claims by either party on the project.” Therefore, this cost recovery is considered part of the global settlement.
- b. The campus will ensure that all project managers receive training in regard to appropriate and accurate material costs charged by trade subcontractors.

Completion date: February 25, 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, San Bernardino

Albert K. Karnig

President

Hamid Azhand

Director and Executive Dean,  
Capital Planning, Design and Construction

Robert Gardner

Vice President for Administration and Finance

Kathy Hansen

Director of Procurement

Maria Lootens

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

Al Salgado

Senior Project Manager/Inspector

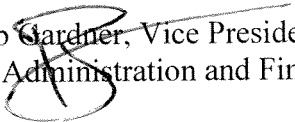
State of California

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

**MEMORANDUM**

DATE: February 7, 2011

TO: Larry Mandel  
University Auditor  
The California State University

FROM:  Bob Gardner, Vice President  
for Administration and Finance

SUBJECT: **Campus Response to  
*Science Buildings Renovation and Addition Phase II Audit*  
Report No. 10-16  
California State University, San Bernardino**



Enclosed is the campus response to CSUSB's Science Buildings Renovation and Addition Phase II Audit – Report No. 10-16.

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

c: Al Karnig  
Hamid Azhand

Enclosure

## CONSTRUCTION

### CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

#### SCIENCE BUILDINGS RENOVATION AND ADDITION PHASE II

#### Audit Report 10-16

### PROJECT DEVELOPMENT AND DESIGN

#### SERVICE AGREEMENTS

##### Recommendation 1

We recommend that the campus ensure that all future project service agreements are approved by the OGC before services are rendered.

##### Campus Response

The campus concurs with the recommendation. CPDC will distribute a written directive to all office managers and applicable administrative support staff that an executed copy of the service agreement must be on file prior to requesting services from the project firm. The directive is to be incorporated into the CSUSB – CPDC Construction Management Manual.

Completion Date: February 25, 2011

#### EXTRA SERVICES

##### Recommendation 2

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

##### Campus Response

The campus concurs with the recommendation. A written directive will be distributed to all office managers and applicable administrative support staff stating that an executed copy of the extra services agreement (ESA) must be on file prior to requesting these services from the project firm. The directive will be incorporated into the CSUSB – CPDC Construction Management Manual.

Completion Date: February 25, 2011

## PRE-CONSTRUCTION AND BID PROCESS

### Recommendation 3

We recommend that the campus:

- a. Reiterate to staff and future construction managers that the expanded list of subcontractors must include all subcontractors who will be paid in excess of one-half of one percent of the base contract.
- b. Consider assessing a penalty of no more than \$44,517 to the construction manager for violation of the Public Contract Code.

### Campus Response

- a. The campus concurs with the recommendation. CPDC will ensure that all construction project managers are educated and will reiterate the importance to review the documentation of expanded subcontractors lists to be inclusive of all subcontractors who will be paid in excess of one-half of one percent of the base contract.
- b. The campus concurs with the recommendation. There was a large claim by the contractor on this project. After numerous meetings and negotiations, a global settlement was signed between the University and the contractor with the following statement, "This global settlement shall bring full and final settlement to all claims by either party on the project." Therefore, this penalty assessment is considered part of the global settlement.

Completion Date: February 25, 2011

## CHANGE ORDER ADMINISTRATION

### LABOR RATES AND BURDEN

#### Recommendation 4

We recommend that the campus:

- a. Pursue recovery of the \$11,020 in inflated labor costs resulting from various inflated rates charged by the 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. The campus concurs with the recommendation. There was a large claim by the contractor on this project. After numerous meetings and negotiations, a global settlement was signed between the University and the contractor with the following statement, "This global settlement shall bring full and final settlement to all claims by either party on the project." Therefore, this cost recovery is considered part of the global settlement.
- b. The campus concurs with the recommendation. Staff training will be conducted for labor rates and associated labor burden charged by trade subcontractors.

Completion Date: February 25, 2011

### **MATERIAL COSTS**

#### **Recommendation 5**

We recommend that the campus:

- a. Pursue recovery of the \$11,944 in inflated material costs charged by the trade subcontractor and determine, as appropriate, if other change order work performed by the trade subcontractor had been cost-inflated in a similar manner.
- b. Conduct staff training to ensure that material costs 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. The campus concurs with the recommendation. There was a large claim by the contractor on this project. After numerous meetings and negotiations, a global settlement was signed between the University and the contractor with the following statement, "This global settlement shall bring full and final settlement to all claims by either party on the project." Therefore, this cost recovery is considered part of the global settlement.
- b. The campus concurs with this recommendation and will ensure that all project managers receive training in regards to appropriate and accurate material costs charged by trade subcontractors.

Completion Date: February 25, 2011

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

February 23, 2011

CHICO

DOMINGUEZ HILLS

**MEMORANDUM**

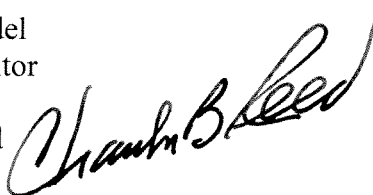
EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-16 on the *Science Buildings Renovation and Addition Phase II*, California State University, San Bernardino

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 23, 2011, I accept the response as submitted with the draft final report on the *Science Buildings Renovation and Addition Phase II*, California State University, San Bernardino.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS