

CONSTRUCTION
SONOMA STATE UNIVERSITY
MUSIC/FACULTY OFFICE BUILDING

Audit Report 10-18
March 28, 2011

Members, Committee on Audit

Henry Mendoza, Chair
Melinda Guzman, Vice Chair
Margaret Fortune Steven M. Glazer
William Hauck Hsing Kung Linda Lang

Staff

University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Audit Manager: Aaron Bolin

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	3
Background	3
Purpose.....	5
Scope and Methodology	6

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Pre-Construction and Bid Process	8
Change Order Administration.....	9
Documentation	9
Mark-Ups	10
Project Completion and Closeout	11
Beneficial Occupancy	11
Final Project Cost	12

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

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
EO	Executive Order
FM/CPDC	Facilities Management/Capital Planning, Design and Construction
GMP	Guaranteed Maximum Price
Music Building	Music/Faculty Office Building
OUA	Office of the University Auditor
SSU	Sonoma State University
SUAM	State University Administrative Manual

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 Sonoma State University campus and the offices of the construction manager and selected subcontractors from November 1, 2010, through December 10, 2010, and audited the Music/Faculty Office Building (Music Building) 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 Music Building 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 [8]

The campus did not ensure that the construction manager included all trade subcontractors on its expanded list of subcontractors submitted with its Guaranteed Maximum Price contract documents.

CHANGE ORDER ADMINISTRATION [9]

Change orders were not always supported by sufficient documentation. In addition, overhead and profit mark-ups applied by one trade subcontractor resulted in an overcharge of \$10,807. Specifically, the trade subcontractor erroneously applied a 15 percent mark-up to work performed by a second-tier subcontractor instead of a 7 percent mark-up.

PROJECT COMPLETION AND CLOSEOUT [11]

The campus did not issue a field instruction and change order to the construction manager when the campus began occupying the classroom and faculty office building portion of the Music Building project for its intended use on August 12, 2008, five months prior to filing the Notice of Completion. In

addition, the construction manager did not provide documentation of the final project cost to support the project cost savings that was returned to the campus.

INTRODUCTION

BACKGROUND

In May 2000, the Board of Trustees (BOT) approved the Sonoma State University (SSU) campus final environmental impact report, campus master plan revision, schematic design, and non-state amendment to the capital outlay program for the Center for Musical Arts, designed by AC Martin Partners, Inc. Also in May 2000, the BOT approved a request to name the Center for Musical Arts the Donald and Maureen Green Music Center in recognition of a \$10 million donation to the campus by Donald and Maureen Green. In September 2004, SSU executed an agreement with the construction management firm of Rudolph and Sletten, Inc., for pre-construction services, which included design and bid phase services. In January 2005, the BOT approved schematic plans for the combined Center of Musical Arts and Music/Faculty Office Building (Music Building) at a project cost of \$57,118,000, with \$17,746,000 in funding from California Proposition 55 Kindergarten-University Public Education Facilities Bond Act of 2004; \$31,748,000 from auxiliary organization tax-exempt financing and donor funding; and \$7,624,000 financed through the California State University (CSU) Systemwide Revenue Bond Program. In March 2005, SSU executed an agreement with the architectural firm of BAR Architects for services related and incidental to the design and construction of the Music Building project. In February 2006, SSU executed an agreement with AC Martin Partners, Inc., for services related to the blending of the architectural plans for the Center of Musical Arts and the Music Building.

In January 2006, SSU executed an agreement for the concert hall foundation services with Rudolph and Sletten, Inc., at a construction cost of \$7,618,000, and issued the Notice to Proceed on March 1, 2006. This agreement allowed the construction manager to begin the extensive site preparation, including the substructure and the installation of concrete piles, caps, and footings. In September 2006, SSU executed an agreement for construction phase services with Rudolph and Sletten, Inc., at a construction cost of \$53,767,950, and issued the Notice to Proceed on September 21, 2006. This agreement allowed the construction manager to perform all other construction activities on the Music Building project. The State Fire Marshal granted the first Conditional Certificate of Occupancy on August 12, 2008, for the purpose of installing the furniture in the academic and classroom building for fall semester classes. The campus filed the final Notice of Completion on October 1, 2009, for the entire Music Building project.

The Music Building project consists of three buildings within a 116,000-gross-square-foot complex, including a concert hall, an academic and classroom building, and a hospitality center. The concert hall includes seating for up to 1,400 patrons and a backstage area to accommodate large performances. The academic and classroom building provides 20 faculty offices and instructional capacity for up to 300 students. The hospitality center provides banquet, meeting, and restaurant facilities. The Music Building used a cast-in-place concrete and wood frame structure with a combination of stone, plaster, wood, and glass exterior. The building's sustainable features include low-energy cooling, day lighting, natural ventilation, hydronic heating, reflective roofing, controlled lighting, and glazing with shading systems.

The SSU campus managed the Music Building 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 that 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 Music Building 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 Music Building 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.

INTRODUCTION

- ▶ 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

PRE-CONSTRUCTION AND BID PROCESS

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

We found that four trade subcontractors who were 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 four trade subcontracts was \$2,896,834.

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 senior director for facilities management/capital planning, design and construction (FM/CPDC) stated his belief that the construction manager had 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 noncompliance with the Subletting and Subcontracting Fair Practices Act and increases the risk that violations of the act will not be detected.

Recommendation 1

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 \$289,683 to the construction manager for violation of the Contract General Conditions and Public Contract Code.

Campus Response

We concur.

- a. The senior director for FM/CPDC will conduct a formal training seminar with the CPDC project managers to ensure that a complete expanded list of subcontractors must be submitted and any additions or substitutions must be communicated and approved.
- b. The senior director for FM/CPDC will consider and examine the possible penalty assessment of the construction manager and have his finding and further actions endorsed by the vice president of administration.

This action will be completed by June 17, 2011.

CHANGE ORDER ADMINISTRATION

DOCUMENTATION

Change orders were not always supported by sufficient documentation.

We reviewed eight project change orders and found that portions of three change orders 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 FM/CPDC senior director stated his belief that the change orders in question did include all the necessary documentation as required by the Contract General Conditions and the State University Administrative Manual (SUAM) by using the chancellor's office Capital Planning, Design and Construction project forms.

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

Recommendation 2

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 senior director for FM/CPDC will conduct a formal training seminar with the CPDC project managers to ensure that change orders are supported by sufficient documentation.

This action will be completed by June 17, 2011.

MARK-UPS

Administration of trade subcontractor overhead and profit mark-ups needed improvement.

We reviewed overhead and profit mark-ups applied by one trade subcontractor and found an overcharge of \$10,807. Specifically, the trade subcontractor erroneously applied a 15 percent mark-up to work performed by a second-tier subcontractor instead of a 7 percent mark-up.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (5) states that the maximum allowable mark-up of trade contractors on any subcontractor tier shall be 7 percent. In addition, the combined costs (mark-up) for the trade contractors include overhead, profit, taxes, indirect supervision, insurance, bonds, and warranty.

The FM/CPDC senior director stated that the trade subcontractor at the time of the issuance of the change order did not know if a second-tier contractor was to be used or if the subcontractor was to self-perform the work outlined in the field instruction and the change order. He further stated that the field instruction and the change order had been set at a fixed price, and it was not decided until after the change order had been issued who would perform the labor.

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

Recommendation 3

We recommend that the campus:

- a. Pursue recovery of the \$10,807 of overcharges.
- b. Conduct staff training to ensure that trade subcontractor mark-ups are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

We concur.

- a. A demand letter will be issued to Rudolph & Sletten to request a refund of \$10,807 due to an erroneous hourly labor mark-up rate applied by a trade subcontractor.
- b. The senior director for FM/CPDC will conduct a formal training seminar with the CPDC project managers to ensure that hourly labor mark-up rates 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*.

This action will be completed by June 17, 2011.

PROJECT COMPLETION AND CLOSEOUT

BENEFICIAL OCCUPANCY

The campus did not issue a field instruction and change order to the construction manager when the campus began occupying the classroom and faculty office building portion of the Music/Faculty Office Building (Music Building) project for its intended use on August 12, 2008, five months prior to filing the Notice of Completion on January 8, 2009.

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 FM/CPDC senior director stated that because the Music Building project had three separate components, of which work was still progressing on the other two components when the campus took beneficial occupancy of the classroom and faculty office building portion, he was unable to issue a field instruction and change order. He further stated his belief that the change order issued on October 13, 2009, met the requirements of SUAM.

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 4

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 the project for its intended use prior to filing the Notice of Completion.

Campus Response

We concur. The senior director for FM/CPDC will conduct a formal training seminar with the CPDC project managers to ensure that a field instruction and change order must be issued to the construction manager when the campus begins occupying the project for its intended use prior to filing the Notice of Completion.

This action will be completed by June 17, 2011.

FINAL PROJECT COST

The construction manager did not provide documentation of the final project cost to support the project cost savings that was returned to the campus.

We found that the construction manager returned project savings related to Phase I and Phase II of construction, the project's concrete work and the construction of the hospitality center. However, the documentation submitted to the campus in support of the savings did not include the amount remitted to the construction manager and the final cost of each segment of the project that generated the savings.

Government Code §13402 and §13403 require a system or systems of internal accounting and administrative controls through which reasonable assurance can be given that measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. Elements of a satisfactory system of internal accounting and administrative control include a system of recordkeeping procedures adequate to provide effective accounting control over expenditures and an effective system of internal review.

Executive Order 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 FM/CPDC senior director stated that the construction agreement or SUAM did not require a detailed reconciliation of the GMP construction agreement, and therefore, he did not require the construction manager to submit any support for the project savings.

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

Recommendation 5

We recommend that the campus reiterate to staff and future construction managers that documentation of the final project cost must be submitted to the campus to support the project cost savings that was returned to the campus.

Campus Response

We concur. The senior director for FM/CPDC will conduct a formal training seminar with the CPDC project managers to ensure that documentation of the final project cost must be submitted to the campus to support the project cost savings that was returned to the campus.

This action will be completed by June 17, 2011.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

Office of the Chancellor

Elvyra San Juan

Assistant Vice Chancellor,
Capital Planning, Design and Construction

Sonoma State University

Ruben Armiñana

President

Letitia Coate

Associate Vice President, Administration and Finance

Christopher Dinno

Senior Director, Facilities Management/
Capital Planning, Design and Construction

Laurence Furukawa-Schlereth

Vice President, Administration and Finance

Kurt Koehle

Director, Internal Operations Analysis and Review

Ruth McDonnell

Deputy Controller, Contracts, Procurement, Accounts Payable



1801 East Cotati Avenue
Rohnert Park, CA 94928-3609

OFFICE OF THE CHIEF FINANCIAL OFFICER AND
VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

707.664.2035 • Fax 707.664.2080

April 28, 2011

MEMORANDUM

TO: Larry Mandel
University Auditor
California State University
401 Golden Shore, 4th Floor
Long Beach, California 90802-4200

FROM: Larry Furukawa-Schlereth
Chief Financial Officer and
Vice President for Administration and Finance

SUBJECT: Construction, Music/Faculty Office Building (Green Music Center), Audit Report # 10-18, Campus Response

RECEIVED
UNIVERSITY AUDITOR

APR 29 2011

THE CALIFORNIA STATE
UNIVERSITY

On behalf of President Armiñana, I am submitting the initial Campus Response to the recommendations of Audit Report # 10-18, *Construction, Sonoma State University, Music/Faculty Office Building*.

We will provide documentation to demonstrate the completion of corrective actions for each recommendation.

This memorandum [pdf copy], and the Campus Response is sent via email to OUA@calstate.edu.

Enclosure

c: President Ruben Armiñana
Letitia Coate
Christopher Dinno
Ruth McDonnell
Brian Orr
Kurt Koehle

THE CALIFORNIA STATE UNIVERSITY

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy
Monterey Bay • Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • San Luis Obispo • San Marcos • Sonoma • Stanislaus

CONSTRUCTION
SONOMA STATE UNIVERSITY
MUSIC/FACULTY OFFICE BUILDING
Audit Report 10-18

PRE-CONSTRUCTION AND BID PROCESS

Recommendation 1

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 \$289,683 to the construction manager for violation of the Contract General Conditions and Public Contract Code.

Campus Response

- a. We concur. The Senior Director for Facilities Management/Capital Planning, Design and Construction will conduct a formal training seminar with the CPDC project managers to ensure that a complete expanded list of subcontractors must be submitted and any additions or substitutions must be communicated and approved.
- b. The Senior Director for Facilities Management/Capital Planning, Design and Construction will consider and examine the possible penalty assessment of the construction manager and have his finding and further actions endorsed by the Vice President of Administration.

This action will be completed by June 17, 2011.

CHANGE ORDER ADMINISTRATION

DOCUMENTATION

Recommendation 2

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 Senior Director for Facilities Management/Capital Planning, Design and Construction will conduct a formal training seminar with the CPDC project managers to ensure that change orders are supported by sufficient documentation.

This action will be completed by June 17, 2011.

MARK-UPS**Recommendation 3**

We recommend that the campus:

- a. Pursue recovery of the \$10,807 of overcharges.
- b. Conduct staff training to ensure that trade subcontractor mark-ups are appropriate and accurate in accordance with §6.00, Changes in Work, of the *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*.

Campus Response

- a. We agree. A demand letter will be issued to Rudolph & Sletten to request a refund of \$10,807 due to an erroneous hourly labor mark-up rate applied by a trade subcontractor.
- b. We concur. The Senior Director for Facilities Management/Capital Planning, Design and Construction will conduct a formal training seminar with the CPDC project managers to ensure that hourly labor mark-up rates 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*.

This action will be completed by June 17, 2011.

PROJECT COMPLETION AND CLOSEOUT**BENEFICIAL OCCUPANCY****Recommendation 4**

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 the project for its intended use prior to filing the Notice of Completion.

Campus Response

We concur. The Senior Director for Facilities Management/Capital Planning, Design and Construction will conduct a formal training seminar with the CPDC project managers to ensure that a

field instruction and change order must be issued to the construction manager when the campus begins occupying the project for its intended use prior to filing the Notice of Completion.

This action will be completed by June 17, 2011.

FINAL PROJECT COST

Recommendation 5

We recommend that the campus reiterate to staff and future construction managers that documentation of the final project cost must be submitted to the campus to support the project cost savings that was returned to the campus.

Campus Response

We concur. The Senior Director for Facilities Management/Capital Planning, Design and Construction will conduct a formal training seminar with the CPDC project managers to ensure that documentation of the final project cost must be submitted to the campus to support the project cost savings that was returned to the campus.

This action will be completed by June 17, 2011.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

June 6, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

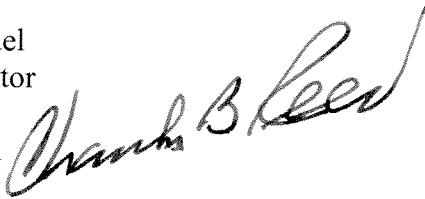
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-18 on the *Music/Faculty Office Building*,
Sonoma State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 6, 2011, I accept the response as submitted with the draft final report on the *Music/Faculty Office Building*, Sonoma State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARGOS

SONOMA

STANISLAUS