

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
SACRAMENTO
STUDENT HOUSING, PHASE I

Audit Report 11-11
June 30, 2011

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CONTENTS

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

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Pre-Construction and Bid Process	7
Insurance	7
Subcontractors	7
Construction Management and Accounting	9
Change Order Administration.....	9
Approval	9
Labor Rates and Burden	10
Project Completion and Closeout	11
Beneficial Occupancy	11
Documentation	12

APPENDICES

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

ABBREVIATIONS

BOT	Board of Trustees
BRIP	Builder's Risk Insurance Program
CFO	Chief Financial Officer
CPDC	Capital Planning, Design and Construction
CRB	Certification Review Board
CSU	California State University
CSUS	California State University, Sacramento
EO	Executive Order
FPCS	Facilities Planning and Construction Services
Housing	Student Housing, Phase I
LEED	Leadership in Energy and Environmental Design
OUA	Office of the University Auditor
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 California State University, Sacramento campus and the offices of the construction manager and selected subcontractors from February 28, 2011, through March 25, 2011, and audited the Student Housing, Phase I (Housing) 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 Housing 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 campus did not enroll the Student Housing, Phase I project into the California State University Builder's Risk Insurance Program in a timely manner. Further, the campus did not ensure that the design-builder included all required trade subcontractors on its expanded list of subcontractors.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [9]

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

CHANGE ORDER ADMINISTRATION [9]

Change orders were not always properly approved. Further, unallowable labor rates inflated labor costs by \$1,503.

PROJECT COMPLETION AND CLOSEOUT [11]

The campus did not issue a field instruction and change order to the design-builder when the campus began occupying the project for its intended use two months prior to filing the Notice of Completion. Further, the campus did not maintain the certificate of completion as part of the final project closing procedures.

INTRODUCTION

BACKGROUND

In May 2003, the Board of Trustees (BOT) approved a revised campus master plan for California State University, Sacramento (CSUS) that included a proposed student housing complex. In May 2007, the BOT approved schematic plans for the CSUS Student Housing, Phase I (Housing) project at a cost of \$54,983,000, with funding from systemwide revenue bonds and housing reserves.

In March 2007, the campus solicited project proposals and selected Brown Construction, Inc., as the design-builder. The campus executed a design and construction agreement with Brown Construction, Inc., on July 17, 2007, at a cost of \$43,368,000 and issued the Notice to Proceed on June 5, 2007, with a completion date of August 20, 2009. The campus took beneficial occupancy on July 15, 2009, and filed a Notice of Completion on October 23, 2009.

The Housing project, designed by MVE Institutional, Inc., and Mogavero Notestine Associates, is located in the student-housing quadrant of the campus and is a four-story wood-framed structure made up of single- and double-occupancy rooms with bathrooms and living areas shared by five occupants. The Housing project provides 606 beds within the 209,000 gross-square-foot complex and is the first phase of a multiyear plan to address student-housing deficiencies. The Housing project includes support spaces, administrative offices, study lounges, meeting rooms, and limited retail. The project achieved a Leadership in Energy and Environmental Design (LEED) silver rating. LEED is a third-party certification program begun in 1999 by the United States Green Building Council and is a nationally accepted benchmark for the sustainable “green” design, construction, and operation of buildings.

The CSUS chose Design-Build as the project delivery method. In this method, the design and construction aspects are contracted with a single design-builder to both design and build the project. As a single source provider of design and construction services, the design-builder is responsible to coordinate the design and construction, which can act to reduce overall change order costs. A well-managed design-build approach can reduce project duration by overlapping the design and construction project phases. Close project management and careful inspection oversight of work in progress are required to fully realize the benefits of this approach.

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. In order to evaluate delegation requests and campus delegated performance, the CRB requires the plan to be maintained and resubmitted when campus operational and staffing changes are made that may 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 or that some additional CPDC assistance be provided to address specific concerns. The CRB may ultimately recommend that certification be withdrawn if identified operational/management deficiencies are not remedied, and in these situations, CPDC staff may be tasked to 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 Housing 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 Housing 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

PRE-CONSTRUCTION AND BID PROCESS

INSURANCE

The campus did not enroll the Student Housing, Phase I (Housing) project in the California State University (CSU) Builder's Risk Insurance Program (BRIP) in a timely manner.

Specifically, the campus enrolled the Housing project on August 11, 2008, three months after issuing the authorization to proceed with construction.

The *Contract General Conditions for Design-Build Projects* §35.06.b states, in part, that Trustees shall insure or self-insure all work while in the course of construction, reconstruction, remodeling, or alteration against physical loss or damage.

The director of facilities planning and construction services (FPCS) stated that the project was not enrolled in BRIP due to inadequate monitoring controls.

Failure to obtain insurance and comply with CSU insurance requirements increases the potential for loss to the campus and the CSU.

Recommendation 1

We recommend that the campus reiterate to staff that all construction projects must be enrolled in the CSU BRIP in a timely manner.

Campus Response

We concur. The campus will remind staff that projects must be enrolled in CSU BRIP in a timely manner. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum. Furthermore, a line item will be added to the campus building permit program to ensure compliance.

SUBCONTRACTORS

The campus did not ensure that the design-builder included all trade subcontractors on its final expanded list of subcontractors.

We found that 14 trade subcontractors who were paid in excess of one-half of one percent of the base contract were not included on the final expanded list of subcontractors. The total value of the 14 trade subcontracts was \$9,706,032.

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 Design-Build Projects* §32.05.b states that as soon as each subcontractor is selected, the proposer shall submit the selection to the Trustees by adding it to and resubmitting the expanded list of subcontractors form, which contains the name, address, and the portion of work to be done by each trade subcontractor performing in excess of one-half of one percent of the work.

The FPCS director stated that the campus made periodic requests for the expanded subcontractor listings but did not receive any updates and was unaware that the design-builder had paid 14 trade subcontractors not listed on the final expanded list of subcontractors.

Failure to ensure that the design-builder provides the campus with 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 2

We recommend that the campus:

- a. Reiterate to staff and future design-builders 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 not more than \$970,603 to the design-builder for violation of the Public Contract Code and Contract General Conditions.

Campus Response

We concur.

- a. The campus will reiterate to staff and future design-build contractors that the expanded list of subcontractors must include all subcontractors whose contract value is greater than one-half of one percent. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.
- b. The campus will conduct an assessment to determine if a penalty of not more than \$970,603 should be levied against the design-builder for violation of the Public Contract Code and Contract General Conditions. This action will be completed by December 31, 2011.

CONSTRUCTION MANAGEMENT AND ACCOUNTING

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

State University Administrative Manual (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 FPCS director stated that the campus did not collect hourly labor rate worksheets from the design-builder and each trade subcontractor because the university's process was to use a spreadsheet with prevailing wage and ranges for labor burden to check reasonableness of wage rates.

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 design-builder and each subcontractor should be requested and used to verify wage rates submitted for change order work.

Campus Response

We concur. The campus will remind staff to request certified payroll records and hourly labor rate worksheets for the design builder and each subcontractor. These worksheets will be used to verify rates for change order work. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

CHANGE ORDER ADMINISTRATION

APPROVAL

Change orders were not always properly approved.

Specifically, we found that two change orders totaling \$631,422 were not approved by the vice president of administration and business affairs and chief financial officer (CFO) as required by the campus delegation of authority.

The California State University, Sacramento *Delegation of Capital Outlay Management Authority*, dated July 31, 2008, states that approval by the vice president of administration and business affairs and CFO is required for change documents exceeding \$100,000.

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

The FPCS director stated that the vice president's authorization was not obtained due to a campus change in the delegation of authority process, which was modified to reflect university practice. Inadequate approval of change orders increases the risk that errors and irregularities will not be detected in a timely manner and may result in unwarranted changes and excess charges and expenses.

Recommendation 4

We recommend that the campus reiterate to staff that change orders must be approved according to authorized dollar thresholds.

Campus Response

We concur. As of October 1, 2008, the university created a new signature block, and the associate vice president or vice president approve charge orders based on the amount of the change order. The campus will remind staff to obtain appropriate authorization for change orders, based on approved dollar thresholds. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

LABOR RATES AND BURDEN

Administration of trade subcontractor labor rates and associated labor burden needed improvement.

We reviewed hourly labor rates and the associated labor burden charged by two trade subcontractors for change order work and found that one subcontractor charged an inflated labor rate and labor burden rate for indirect costs and automobile insurance. This increased labor costs by \$3,738. In addition, a second trade subcontractor was required to charge a labor rate that was less than the audited labor rate for the company. The difference created a credit to the trade subcontractor of \$2,235.

The *Contract General Conditions for Design-Build Projects* §37.01b (1) states that costs are allowed for the actual payroll costs to the builder for labor, field supervision of changed work, and engineering or technical services directly required for the performance of the changed work. Costs include payments, assessments, or benefits required by lawful labor union collective bargaining agreements, compensation insurance payments, liability insurance premiums on labor only, contributions made to the state pursuant to the Unemployment Insurance Code, and for taxes paid to the federal government required by the Social Security Act.

The FPCS director stated that the campus performed some checks for reasonableness; however, the reviews were not always accurate, which resulted in some minor variances from the actual costs.

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

Recommendation 5

We recommend that the campus:

- a. Pursue recovery of the \$1,503 net overcharge. The results of this recovery should be reported to the chancellor's office Capital Planning, Design and Construction (CPDC) department.
- 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 §37.00, Changes in the Work, of the *Contract General Conditions for Design-Build Projects*.

Campus Response

We concur.

- a. By December 31, 2011, the campus will send a letter to Brown Construction seeking recovery of the \$1,503 overcharge. Additionally, the results of the recovery process will be reported to the chancellor's office CPDC department.
- b. By December 31, 2011, staff training covering hourly labor rates and associated labor burden will be completed.

PROJECT COMPLETION AND CLOSEOUT

BENEFICIAL OCCUPANCY

The campus did not issue a field instruction and change order to the design-builder when the campus began occupying the project for its intended use two 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 FPCS director stated that the campus filed the Notice of Completion within 60 days of occupancy and that the lapse was due to final closeout and punch list items still being completed by the design-builder. He further stated that a field instruction and change order was not issued when the campus began occupying the project for its intended use due to limited resources and competing priorities.

Failure to issue a field instruction and change order to the design-builder 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 design-builder when the campus begins occupying the project for its intended use prior to filing the Notice of Completion.

Campus Response

We concur. The campus will remind staff that a field instruction and change order should be issued before beneficial occupancy. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

DOCUMENTATION

The campus did not maintain the certificate of completion as part of the final project closing procedures.

SUAM §9830 states that the process for inspection and acceptance of completed contract work includes a pre-final inspection of construction, which may include preparation of a punch list for any deviations or delinquencies in the work; and a final inspection, which includes completion of the project closeout checklist and certification of completion by the designer/architect, project manager/construction inspector, and construction administrator.

The FPCS director stated that even though the campus conducted the closeout process, the final documentation was misplaced.

Failure to maintain the certification of completion as part of the final project closing procedures increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 7

We recommend that the campus reiterate to staff that the certificate of completion is to be maintained as part of the final project closing procedures.

Campus Response

We concur. The campus will remind staff that a certificate of completion should be completed before final project closeout. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
<u>Office of the Chancellor</u>	
Tom Kennedy	Chief of Architecture and Engineering
Elvyra San Juan	Assistant Vice Chancellor, Capital Planning, Design and Construction
James Sowerbrower	Chief of Construction Management
 <u>California State University, Sacramento</u>	
Alexander Gonzalez	President
Robin Eicher	Associate Facilities Planner
Mike Lee	Vice President of Administration and Business Affairs and Chief Financial Officer (Interim)
Kathi McCoy	Director of Auditing Services
Mario Ruiz	Associate Vice President for Facilities Services (Interim at the time of review)
Victor Takahashi	Director of Facilities Planning and Construction Services



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August 17, 2011

RECEIVED
 UNIVERSITY AUDITOR

AUG 18 2011

THE CALIFORNIA STATE
 UNIVERSITY

Larry Mandel
 University Auditor
 The California State University
 401 Golden Shore
 Long Beach, CA 90802-4210

SUBJECT: Campus Response to Recommendations
 of Construction Audit, Report #11-11
 Student Housing, Phase I – American River Courtyard

Larry
 Dear Mr. Mandel:

Please find enclosed California State University, Sacramento's response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

Ming-Tung
 Ming-Tung "Mike" Lee, Ph.D.
 Vice President & Chief Financial Officer

MTL:kd

Enclosure

cc: Alexander Gonzalez, President
 Ali Izadian, Associate Vice President, Facilities Services
 Kathi McCoy, Director, Auditing Services
 Victor Takahashi, Director of Facilities Planning & Construction

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

STUDENT HOUSING, PHASE I

Audit Report 11-11

PRE-CONSTRUCTION AND BID PROCESS

INSURANCE

Recommendation 1

We recommend that the campus reiterate to staff that all construction projects must be enrolled in the CSU BRIP in a timely manner.

Campus Response

We concur. The campus will remind staff that projects must be enrolled in CSU BRIP in a timely manner. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum. Furthermore, a line item will be added to the campus building permit program to ensure compliance.

SUBCONTRACTORS

Recommendation 2

We recommend that the campus:

- a. Reiterate to staff and future design-builders 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 not more than \$970,603 to the design-builder for violation of the Public Contract Code and Contract General Conditions.

Campus Response

- a. We concur. The campus will reiterate to staff and future design-build contractors that the expanded list of subcontractors must include all subcontractors whose contract value is greater than ½ of 1%. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.
- b. We concur. The campus will conduct an assessment to determine if a penalty of not more than \$970,603 should be levied against the design-builder for violation of the Public Contract Code and Contract General Conditions. This action will be completed by December 31, 2011.

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 design-builder and each subcontractor should be requested and used to verify wage rates submitted for change order work.

Campus Response

We concur. The campus will remind staff to request certified payroll records and hourly labor rate worksheets for the design builder and each subcontractor. These worksheets will be used to verify rates for change order work. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

CHANGE ORDER ADMINISTRATION

APPROVAL

Recommendation 4

We recommend that the campus reiterate to staff that change orders must be approved according to authorized dollar thresholds.

Campus Response

We concur. As of October 1, 2008, the University created a new signature block, and the Associate Vice President or Vice President approve charge orders based on the amount of the change order. The campus will remind staff to obtain appropriate authorization for change orders, based on approved dollar thresholds. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

LABOR RATES AND BURDEN

Recommendation 5

We recommend that the campus:

- a. Pursue recovery of the \$1,503 net overcharge. The results of this recovery should be reported to the chancellor's office Capital Planning, Design and Construction (CPDC) department.
- 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 §37.00, Changes in the Work, of the *Contract General Conditions for Design-Build Projects*.

Campus Response

We concur.

- a. By December 31, 2011, the campus will send a letter to Brown Construction seeking recovery of the \$1,503 overcharge. Additionally, the results of the recovery process will be reported to the chancellor's office Capital Planning, Design, and Construction (CPDC) department.
- b. By December 31, 2011, staff training covering hourly labor rates and associated labor burden will be completed.

PROJECT COMPLETION AND CLOSEOUT

BENEFICIAL OCCUPANCY

Recommendation 6

We recommend that the campus reiterate to staff that a field instruction and change order should be issued to the design-builder when the campus begins occupying the project for its intended use prior to filing the Notice of Completion.

Campus Response

We concur. The campus will remind staff that a field instruction and change order should be issued before beneficial occupancy. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

DOCUMENTATION

Recommendation 7

We recommend that the campus reiterate to staff that the certificate of completion is to be maintained as part of the final project closing procedures.

Campus Response

We concur. The campus will remind staff that a certificate of completion should be completed before final project closeout. By December 31, 2011, the associate vice president of facilities services will communicate this practice in a memorandum.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 1, 2011

CHICO

MEMORANDUM

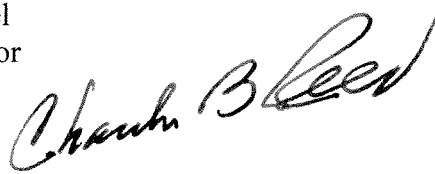
DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor



FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 11-11 on *Student Housing, Phase I*
California State University, Sacramento

LONG BEACH

LOS ANGELES

In response to your memorandum of September 1, 2011, I accept the response as submitted with the draft final report on *Student Housing, Phase I*, California State University, Sacramento.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS