CONSTRUCTION

CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

SCIENCE REPLACEMENT BUILDING, WING B

Audit Report 12-11
June 26, 2012

Members, Committee on Audit

Henry Mendoza, Chair
William Hauck   Steven M. Glazer
Glen O. Toney

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

BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

BOT        Board of Trustees
CPDC       Capital Planning, Design and Construction
CRB        Certification Review Board
CSU        California State University
CSULA      California State University, Los Angeles
ESA        Extra Service Authorization
EO         Executive Order
FPC        Facilities Planning and Construction
OUA        Office of the University Auditor
SRB        Science Replacement Building
SUAM       State University Administrative Manual
EXECUTIVE SUMMARY

At its January 2012 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, Los Angeles campus and the offices of the design-builder and selected subcontractors from April 16, 2012, through May 9, 2012, and audited the Science Replacement Building (SRB), Wing B 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 SRB, Wing B project were sufficient to meet the overall audit objective stated below.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

PROJECT DEVELOPMENT AND DESIGN [7]

The chancellor’s office Capital Planning, Design and Construction (CPDC) department procedures did not require all capital outlay estimates to be signed by the campus staff and filed at CPDC.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [8]

Campus general counsel did not approve the service agreement with the inspection firm prior to the initial provision of services. In addition, four extra service authorization letters for additional inspection and special testing services were not countersigned by the vendors.

CHANGE ORDER ADMINISTRATION [9]

Accounting records at both the design-builder and trade subcontractor indicated the design-builder had under paid a trade subcontractor creating an overcharge to the campus of $10,000. In addition, the design-builder and two trade subcontractor applied excessive overhead and profit mark-ups that resulted in an overcharge of $3,623.
EXECUTIVE SUMMARY

PROJECT COMPLETION AND CLOSEOUT [11]

The campus did not issue a change order to the design-builder when the campus began occupying the project for its intended use until March 2012, one month after the project’s Notice of Completion was filed. Further, the project manager did not sign the project closeout checklist prior to completing the certificate of completion and filing the Notice of Completion. Also, the campus construction administrator failed to sign the project certificate of completion.
INTRODUCTION

BACKGROUND

In May 2003, the chancellor’s office Capital Planning, Design and Construction (CPDC) department approved a minor revision to the campus master plan for California State University, Los Angeles (CSULA) that included the relocation of the Science Replacement Building (SRB) to a new location. In July 2005, CSULA began construction on the SRB, Wing A, the first phase of the building design, which included two wings connected by a pedestrian bridge and outdoor study area. In January 2007, the Board of Trustees (BOT) approved schematic plans for the CSULA SRB, Wing B, at a project cost of $55,248,000.

In December 2007, the campus solicited project bids and selected Bernards Bros., Inc., as the design-builder. The campus executed a design and construction agreement with Bernards Bros., Inc., on April 1, 2008, at a cost of $45,569,000. The campus issued the Notice to Proceed on April 9, 2008, with a completion date of April 16, 2010. The campus took beneficial occupancy on April 6, 2011, and filed the Notice of Completion on January 27, 2012.

The SRB, Wing B is an 87,000-square-foot facility that includes laboratories, support spaces, and faculty offices for biology, chemistry, geology, physics, and astronomy, as well as a 200-seat lecture hall. The building is a three-story steel frame structure with braced frames. Exterior wall finishes are designed for durability and ease of maintenance. The exterior materials, finishes, and color palette match those of SRB, Wing A, such that the completed project appears as a single complex and blends in with the campus environment. Sustainable building features include a space configuration that locates most laboratories along exterior walls allowing daylighting, an automated light control system with occupancy sensors, and windows with double-glazing and low emission coatings. An energy efficient mechanical system with variable air volume controls tied to the campus central plant further reduces the building’s energy consumption, and heat absorption is minimized with a cool roof.

CSULA campus managed the SRB, Wing B project, and it chose the Design-Build delivery method. In this method, the design and construction aspects are contracted with a single design-builder who has full responsibility for finalizing and implementing a design that meets or exceeds California State University’s (CSU) performance expectations. The design-build entity is responsible for the adequacy of design and any construction defects, which allows the CSU to avoid these types of claims and limits errors and omissions change orders. Further, the design-build approach shortens project completion by overlapping the design and construction project phases. This approach also minimizes the university’s need to schedule and coordinate the overall project, although clear specifications of CSU performance requirements and high-quality inspection 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. Updated plans are to be submitted when campus operational structure changes are made which 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 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 SRB, Wing B 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.

- 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 SRB, Wing B 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 AND MANAGEMENT RESPONSES

PROJECT DEVELOPMENT AND DESIGN

The chancellor’s office Capital Planning, Design and Construction (CPDC) department procedures did not require all capital outlay estimates to be signed by the campus staff and filed at CPDC.

We found that although a CPDC university planner approved and returned the capital outlay estimate submitted by the campus during the initial and revised budget phase of the project, subsequent capital outlay estimates submitted and signed by the campus to CPDC at award of construction were not located.

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 budgeting controls and an effective system of internal review.

The chancellor’s office CPDC chief of facilities planning stated that current State University Administrative Manual (SUAM) procedures for the decentralized capital outlay process indicate that the responsibility for the creation and transmittal of capital outlay estimates for each phase of capital project development should remain with the campuses, who maintain the contractual agreements with all design and construction service providers.

Failure to provide adequate procedures regarding the approval of capital outlay estimates increases the risk that changes to estimated costs of capital projects will not be detected and may result in misunderstandings and miscommunication about the allowable use of resources for a particular capital project.

Recommendation 1

We recommend that the chancellor’s office CPDC department implement procedures to ensure that the campuses submit capital outlay estimates for each phase of the capital project.

Management Response

By December 1, 2012, CPDC will provide additional clarification within SUAM §9002, Decentralized Capital Outlay Process, for the project milestone reporting procedures to ensure that campuses submit all required documentation of capital outlay estimates at each phase of the project.
CONSTRUCTION MANAGEMENT AND ACCOUNTING

Administration of inspection and special testing services required improvement.

We reviewed the vendor files for project inspection and special testing services and found that:

- The service agreement with the inspection firm was approved by campus general counsel on August 21, 2008, three months after the initial provision of services.
- The four extra service authorization (ESA) letters for additional inspection and testing services were not countersigned by the vendors.

SUAM §9210.01 states that agreements for professional services are not in force or effect until approved by the California State University Office of General Counsel.

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 facilities planning and construction (FPC) director stated that the inspection firm was allowed to attend design, orientation, and coordination meetings prior to the final approval of the service agreement. He further stated that the ESA letters were not countersigned due to oversight.

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

**Recommendation 2**

We recommend that the campus:

a. Ensure that all future inspection service agreements are fully executed by all required parties before services are rendered.

b. Reiterate to staff that ESA letters are to be fully executed by all required parties.

**Campus Response**

In August 2012, the assistant vice president for administration and finance reiterated to planning and construction staff that future inspection service agreements should be fully executed by all required parties before services are rendered and that ESA letters should be fully executed by all required parties.
CHANGE ORDER ADMINISTRATION

SUBCONTRACTORS

Design-builder accounting records did not always agree to change orders submitted to the campus.

We reviewed a sample of change orders submitted by the design-builder and found an underpayment to one trade subcontractor. The design-builder’s change order documentation detailed costs of $417,448 incurred by the trade subcontractor; however, accounting records at both the design-builder and trade subcontractor indicated that the design-builder had only reimbursed the trade subcontractor for $407,448. This underpayment created an overcharge to the campus of $10,000.

The Contract General Conditions for Design-Build Projects §37.01.b (5) states that for any portion of the changed work which is to be performed by a subcontractor (any tier), the design-builder shall furnish to the Trustees a detailed estimate prepared and signed by the subcontractor of the cost to subcontractor for performing the changed work.

The FPC director stated his belief that the campus performed its due diligence by discussing with the design-builder requirements for payments to trade subcontractors at the beginning of the project and periodically during the project.

Failure by the design-builder to properly reimburse trade subcontractors the full amount of cost estimates 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 pursue recovery of the $10,000 overcharge. The results of this recovery should be reported to the chancellor’s office CPDC department.

Campus Response

The campus sent a demand letter to the contractor for the recovery of the $10,000 overcharge in June 2012 and will follow up for proper resolution.

MARK-UPS

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

We reviewed overhead and profit mark-ups applied by the design-builder and two trade subcontractors and found that:

- The design-builder erroneously included an internal estimating cost as a subcontractor cost and applied both a 15 percent mark-up for work performed by a trade subcontractor and an additional
7 percent design-builder’s mark-up to the total cost of the change order. This error created an overcharge of $1,373.

- One trade subcontractor erroneously applied a 15 percent mark-up to work performed by a second-tier subcontractor instead of a 7 percent mark-up. This error created an overcharge of $1,653.

- A second trade subcontractor’s mathematical error in the calculation of the total cost on one change order created an overhead and profit mark-up overcharge of $597.

The *Contract Supplemental General Conditions for Design-Build Projects* §37.01.b (5) states that the subcontractor’s overhead, profit, taxes, indirect supervision, insurance, bonds, and warranty shall not exceed 15 percent of the first $50,000 of the direct costs; thereafter, ten percent on the balance beyond $50,000.

The *Contract General Conditions for Design-Build Projects* §37.01.b (6) states that the design-builder may add no more than ten percent mark-up to the subcontractor’s total direct cost for such work on the first $50,000, and thereafter the mark-up is seven percent on the balance beyond $50,000.

The FPC director stated his belief that the campus performed its due diligence by discussing with the design-builder requirements for payments to trade subcontractors at the beginning of the project and periodically during the project.

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

**Recommendation 4**

We recommend that the campus:

a. Pursue recovery of the $3,623 overcharge charged by the design-builder and the two trade subcontractors. The results of this recovery should be reported to the chancellor’s office CPDC department.

b. Conduct staff training to ensure that design-builder mark-ups are appropriate and accurate in accordance with §37.00, Changes in the Work, of the *Contract General Conditions for Design-Build Projects*.

**Campus Response**

The campus sent a demand letter to the contractor for the recovery of the $3,623 overcharge in June 2012 and will follow up for proper resolution. Staff training will be conducted in August 2012.
PROJECT COMPLETION AND CLOSEOUT

Administration of project closeout required improvement.

We found that:

- The campus issued a field instruction to the builder on April 6, 2011, that notified the builder that the campus was taking full beneficial occupancy of the project. However, the campus did not execute a change order until March 2012, one month after the project’s Notice of Completion was filed.

- The project manager did not sign the project closeout checklist prior to completing the certificate of completion and filing the Notice of Completion.

- The certificate of completion was not signed by the construction administrator.

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.

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 FPC director stated that the length of time between issuing the field instruction and executing the beneficial occupancy change order was due to items on the punch list requiring design and procurement of materials. He further stated that the Notice of Completion was not filed until all punch list and closeout items were resolved. In addition, he stated that the campus used a detailed closeout checklist that did not have the signature block; however, the executed certificate of completion acted as verification for the closeout checklist. Finally, the assistant vice president of administration and finance stated that the campus utilized the signed Notice of Completion as the acknowledgement and certification of compliance with all project requirements by the construction administrator.

Failure to execute a change order in a timely manner when taking beneficial occupancy and to fully complete the project closeout checklist and certification of completion prior to filing the Notice of Completion increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.
**Recommendation 5**

We recommend that the campus:

a. Reiterate to staff that a change order should be issued in a timely manner to the design-builder when the campus begins occupying the project for its intended use prior to filing the Notice of Completion.

b. Ensure that the project manager signs the project closeout checklist prior to completing the certificate of completion and filing the Notice of Completion.

c. Ensure that certificates of completion are signed by the construction administrator.

**Campus Response**

In August 2012, the assistant vice president for administration and finance reiterated to planning and construction staff that change orders should be issued timely; the project manager should sign the closeout checklist prior to completing the certificate of completion and filing the Notice of Completion; and certificates of completion should be signed by the construction administrator.
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td><strong>Office of the Chancellor</strong></td>
<td></td>
</tr>
<tr>
<td>Benjamin F. Quillian</td>
<td>Executive Vice Chancellor and Chief Financial Officer</td>
</tr>
<tr>
<td>Lori Erdman</td>
<td>Chief of Staff, Business and Finance (At time of review)</td>
</tr>
<tr>
<td>Barbara Nicholson</td>
<td>Principal Construction Program Manager</td>
</tr>
<tr>
<td>Larry Piper</td>
<td>Chief of Facilities Planning</td>
</tr>
<tr>
<td>Elvyra San Juan</td>
<td>Assistant Vice Chancellor, Capital Planning, Design and Construction</td>
</tr>
<tr>
<td>James Sowerbrower</td>
<td>Chief of Construction Management</td>
</tr>
<tr>
<td><strong>California State University, Los Angeles</strong></td>
<td></td>
</tr>
<tr>
<td>James M. Rosser</td>
<td>President</td>
</tr>
<tr>
<td>Lisa Chavez</td>
<td>Vice President for Administration/Chief Financial Officer</td>
</tr>
<tr>
<td>Roger Christman</td>
<td>Director, Facilities Planning and Construction</td>
</tr>
<tr>
<td>Tanya Ho</td>
<td>University Internal Auditor</td>
</tr>
<tr>
<td>Salvador Rodriguez</td>
<td>Senior Internal Auditor</td>
</tr>
<tr>
<td>Mae Santos</td>
<td>Assistant Vice President for Administration and Finance</td>
</tr>
<tr>
<td>Sarab Singh</td>
<td>Facilities Planner/Project Manager</td>
</tr>
</tbody>
</table>
MEMORANDUM

DATE: September 4, 2012

TO: Larry Mandel
    University Auditor

FROM: Benjamin F. Quillian
      Executive Vice Chancellor and Chief Financial Officer

SUBJECT: Audit Report Number 12-11
         Science Replacement Building, Wing B
         California State University, Los Angeles

I am pleased that the overall theme of this audit report continues in a positive vein and
that it finds general compliance with established procedures. I have reviewed the report’s
findings with Capital Planning, Design and Construction (CPDC) staff, and have attached our
response to the auditors’ findings and recommendation to CPDC.

BFQ:ESJ

Attachment

c: Elyvra F. San Juan, Assistant Vice Chancellor
   Larry Piper, Chief of Facilities Planning
   Thomas Kennedy, Chief of Architecture and Engineering
   James Sowerbrower, Chief of Construction Management

CSU Campuses
Bakersfield
Channel Islands
Chico
Domínguez Hills
East Bay
Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy
Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego
San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus
CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
LOS ANGELES
SCIENCE REPLACEMENT BUILDING, WING B
Audit Report 12-11

PROJECT DEVELOPMENT AND DESIGN

Recommendation 1

We recommend that the chancellor’s office CPDC department implement procedures to ensure that the campuses submit capital outlay estimates for each phase of the capital project.

Management Response

By December 1, 2012, CPDC will provide additional clarification within the SUAM §9002, Decentralized Capital Outlay Process, for the project milestone reporting procedures to ensure that campuses submit all required documentation of capital outlay estimates at each phase of the project.
August 21, 2012

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

Re: University’s Response to Recommendations Contained in Report Number 12-11, Science Replacement Building Wing B Construction

Dear Mr. Mandel:

Attached are the University’s responses to the recommendations contained in Report Number 12-11, Science Replacement Building Wing B Construction audit.

Please contact Tanya Ho, University Internal Auditor, at (323) 343-5102, if you wish to discuss the matter contained herein.

Sincerely,

[Signature]

James M. Rosser
President

Attachment

cc: (with attachments)
Lisa Chavez, Vice President for Administration and Chief Financial Officer
Tanya Ho, University Internal Auditor
Jill Carnahan, Administrative Compliance Officer
CONSTRUCTION

CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

SCIENCE REPLACEMENT BUILDING, WING B

Audit Report 12-11

CONSTRUCTION MANAGEMENT AND ACCOUNTING

Recommendation 2

We recommend that the campus:

a. Ensure that all future inspection service agreements are fully executed by all required parties before services are rendered.

b. Reiterate to staff that ESA letters are to be fully executed by all required parties.

Campus Response

The Assistant Vice President for Administration and Finance reiterated in August 2012 to Planning and Construction staff to ensure that future inspection service agreements are fully executed by all required parties before services are rendered and ESA letters are to be fully executed by all required parties.

CHANGE ORDER ADMINISTRATION

SUBCONTRACTORS

Recommendation 3

We recommend that the campus pursue recovery of the $10,000 overcharge. The results of this recovery should be reported to the chancellor’s office CPDC department.

Campus Response

Campus sent a demand letter to the contractor for the recovery of the $10,000 overcharge in June 2012 and will follow up for proper resolution.
MARK-UPS

Recommendation 4

We recommend that the campus:

a. Pursue recovery of the $3,623 overcharge charged by the design-builder and the two trade subcontractors. The results of this recovery should be reported to the chancellor’s office CPDC department.

b. Conduct staff training to ensure that design-builder mark-ups are appropriate and accurate in accordance with §37.00, Changes in the Work, of the Contract General Conditions for Design-Build Projects.

Campus Response

Campus sent a demand letter to the contractor for the recovery of the $3,623 overcharge in June 2012 and will follow up for proper resolution. Staff training will be conducted in August 2012.

PROJECT COMPLETION AND CLOSEOUT

Recommendation 5

We recommend that the campus:

a. Reiterate to staff that a change order should be issued in a timely manner to the design-builder when the campus begins occupying the project for its intended use prior to filing the Notice of Completion.

b. Ensure that the project manager signs the project closeout checklist prior to completing the certificate of completion and filing the Notice of Completion.

c. Ensure that certificates of completion are signed by the construction administrator.

Campus Response

The Assistant Vice President for Administration and Finance reiterated in August 2012 to Planning and Construction staff to ensure that 1) change orders are issued timely, 2) the project manager signs the close out checklist prior to completing the certificate of completion and filing the Notice of Completion, and 3) certificates of completion are signed by the construction administrator.
September 14, 2012

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Reed
       Chancellor

SUBJECT: Draft Final Report 12-11 on the
          Science Replacement Building, Wing B
          California State University, Los Angeles

In response to your memorandum of September 14, 2012, I accept the response
as submitted with the draft final report on the Science Replacement Building,
Wing B, California State University, Los Angeles.

CBR/amd