CONSTRUCTION
HUMBOLDT STATE UNIVERSITY
COLLEGE CREEK APARTMENTS
Audit Report 13-12
November 22, 2013

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# CONTENTS

Executive Summary ...................................................................................................................................... 1

Introduction ................................................................................................................................................... 3
  Background ............................................................................................................................................... 3
  Purpose ...................................................................................................................................................... 5
  Scope and Methodology ........................................................................................................................... 6

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Project Development and Design ................................................................................................................. 7

Construction Management and Accounting ................................................................................................. 8
  Monthly Payment Applications ................................................................................................................ 8
  Certified Payroll Records ........................................................................................................................ 9
  Group II Equipment ................................................................................................................................ 10

Change Order Administration .......................................................................................................................... 12

Project Completion and Closeout ................................................................................................................... 13
APPENDICES

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

ABBREVIATIONS

A/E    Architect/Engineer
AVP    Associate Vice President
BOT    Board of Trustees
CCA    College Creek Apartments
CPDC   Capital Planning, Design and Construction
CRB    Certification Review Board
CSU    California State University
EO     Executive Order
ESA    Extra Service Authorization
FM     Facilities Management
FPD    Facilities Planning and Design
HSU    Humboldt State University
ICSUAM Integrated California State University Administrative Manual
OAAS   Office of Audit and Advisory Services
EXECUTIVE SUMMARY

At its January 2013 meeting, the Board of Trustees directed the Office of Audit and Advisory Services (OAAS) to review construction activity. Construction auditing had been performed by KPMG since fiscal year 1997/98 with coordination from the OAAS. In fiscal year 2008/09, OAAS staff began performing construction audits.

We visited the Humboldt State University campus and the offices of the general contractor and selected subcontractors from July 29, 2013, through August 30, 2013, and audited the College Creek Apartments (CCA) project focusing on the construction management policies and procedures and internal controls and processes in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for the CCA project, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: project development and design, construction management and accounting, and change order administration.

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]

Extra service authorization letters for the CCA project were not always properly approved and reviewed prior to processing.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [8]

Contractor monthly payment applications were not always properly approved and reviewed prior to processing. Further, the campus did not always request certified payroll records and hourly labor rate worksheets for subcontractors in all tiers. This is a repeat finding from the prior construction audit of the Forbes Physical Education Complex in 2009. In addition, Group II equipment purchased for the CCA project was not always properly tagged or capitalized.

CHANGE ORDER ADMINISTRATION [12]

The general contractor applied excessive overhead and profit mark-ups or failed to apply mark-up on deleted change order items, which resulted in overcharges of $46,993. This is a repeat finding from the prior construction audit of the Forbes Physical Education Complex in 2009.
EXECUTIVE SUMMARY

PROJECT COMPLETION AND CLOSEOUT [13]

The campus did not execute change orders following the issuance of field instructions when the campus began occupying the residential complex, community center, and sports playing field. This is a repeat finding from the prior construction audit of the Forbes Physical Education Complex in 2009.
INTRODUCTION

BACKGROUND

In March 2008, the Board of Trustees (BOT) approved schematic plans for the Humboldt State University (HSU) College Creek Apartments (CCA) at a project cost of $44,766,000, with funding from systemwide revenue bonds to be paid from student housing revenues and housing program reserves.

In June 2007, the campus executed a service agreement with Rollings Suarez Kuehne Associates to act as an executive architect in the modified design-build construction of the CCA project. A new agreement was executed in March 2008, due to a change in project delivery method from design-build to design-bid-build. In July 2008, the campus solicited project bids and selected Brown Construction, Inc., as the general contractor. The campus executed an agreement with Brown Construction, Inc. on November 4, 2008, at a cost of $37,943,000, and issued the Notice to Proceed on November 9, 2008, with a completion date of November 4, 2010. The campus received a Certificate of Occupancy on August 17, 2010, and filed the Notice of Completion on May 17, 2011.

The CCA project is located in the southwest quadrant of the campus, with close proximity to the campus academic core and recreational areas. The residential buildings are grouped into four complexes, with 434 beds in apartment-style units. A 15,000-square-foot community center adjacent to the apartments provides students with a public retail food service marketplace, as well as study rooms and a multi-purpose great hall. The CCA project also includes an all-weather synthetic turf soccer field that meets National College Athletic Association requirements for college soccer. A nearby support building provides locker rooms, maintenance facilities, and public restrooms for the soccer program and intramural sports.

The HSU campus managed the CCA project, and it chose the Design-Bid-Build delivery method. In this method, the design and construction aspects are contracted for separately, and the project is usually awarded to the lowest bid by a qualified general contractor. The architect/engineer (A/E) develops a schematic design, works with other professionals to complete drawings and specifications, and coordinates the bid documents. The project is advertised and bids are requested for various general contractors, who in turn bid out subcomponents of the project to multiple subcontractors and compile a complete bid for submission. The A/E participates in bid review and selection. During the construction phase, the A/E reviews work progress and issues site instructions, change orders, and other documentation necessary to the construction process; and the general contractor manages the construction process and daily activity on the construction site and often provides work with its own forces. The university remains responsible for project inspection and testing, and for generally administering the project.

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 Integrated California State University Administrative Manual (ICSUAM); 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 ICSUAM guidelines; and the use of systemwide standardized architectural, engineering, and other professional appointment contract forms.

The ICSUAM, in part, contains an overview of all CPDC policies and procedures associated with the capital outlay process. ICSUAM §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. ICSUAM §9200 through §9212, Professional Services for Campus Development, describe the requirements for developing and administering professional services agreements with service providers such as architects and engineers and for testing services and project-related studies.

The California State University (CSU) Construction Management Procedures Manual contains the CSU construction management policies and procedures that apply to a project, and each construction administrator, project manager, inspector of record, campus representative, and design professional is required to use this manual as appropriate during the construction administration of a project.
PURPOSE

The overall audit objective was to ascertain the effectiveness of construction management policies and procedures and internal controls and processes related to the administration of construction activities and, specifically, the CCA 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 ICSUAM.
- Professional appointments are in accordance with statutory requirements, BOT policy, and the ICSUAM; 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 ICSUAM, 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 ICSUAM.
- 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 ICSUAM.
- Group II equipment is properly managed and accounted for, 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 whether fiscal, 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 CCA project with an emphasis on compliance with the CSU *Construction Management Procedures Manual*, ICSUAM 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

PROJECT DEVELOPMENT AND DESIGN

Extra service authorization (ESA) letters for the College Creek Apartments (CCA) project were not always properly approved and reviewed prior to processing.

We reviewed 19 ESA letters, and we found that:

- Fourteen had not been approved in accordance with authorized dollar thresholds outlined in the campus capital outlay management plan. Specifically, the letters were approved by contracts and procurement, rather than facilities management, and two letters for more than $100,000 were not approved by the vice president for administrative affairs.

- None were countersigned by the service provider.

- One was incorrectly processed, resulting in an overpayment of $720 to the architect.

Humboldt State University (HSU) Capital Outlay Management Plan, dated June 2008, states that project managers in facilities management (FM) have approval for contractor and consultant change orders and field instructions not exceeding $20,000. The university construction manager has approval authority for change documents not exceeding $50,000. The senior director of FM has approval authority for change documents not exceeding $100,000. The vice president for administrative affairs approves all change documents exceeding $100,000.

Integrated California State University Administrative Manual (ICSUAM) §9210.03, Extra Services Changes to Professional Agreements, states that ESA letters shall require the approval of the appropriate personnel and a countersignature by the service provider.

Government Code §13402 and §13403 state, in part, that state agencies are responsible for the establishment and maintenance of a system of internal accounting and administrative control that includes an established system of practices to be followed and an effective system of internal review.

The associate vice president (AVP) of facilities planning and design (FPD) stated that the staff responsible for ensuring that ICSUAM requirements were followed did not follow protocol, and university management had not conducted training regarding the requirements. She further stated that the overpayment was due to a transposition error that was not discovered by staff and managers responsible for the project.

The absence of proper approval and review of ESA letters increases the risk of misunderstandings regarding rights and responsibilities and processing errors.
Recommendation 1

We recommend that the campus:

a. Approve ESA letters in accordance with the campus capital outlay management plan.

b. Conduct staff training to ensure that ESA letters are prepared and approved in accordance with ICSUAM §9210.03, *Extra Services Changes to Professional Agreements*, and properly reviewed prior to processing.

c. Pursue recovery of the $720 overpayment to the architect.

Campus Response

We concur. The campus will conduct a meeting/training prior to the start of our next major capital project in which review of ICSUAM requirements and the university’s Capital Outlay Management Plan will be reviewed. In addition, the university will endeavor to recover the $720 in overpayments to the architect.

The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.

The campus will seek to recover the overpayment to the general contractor by February 28, 2014.

CONSTRUCTION MANAGEMENT AND ACCOUNTING

MONTHLY PAYMENT APPLICATIONS

Contractor monthly payment applications were not always properly approved and reviewed prior to processing.

We reviewed 38 monthly payment applications, and we found that:

- Twelve monthly payment applications were not approved by the director of FM, as required by the campus outlay management plan.

- One monthly payment application was incorrectly processed, resulting in an overpayment of $2,057.94 to the general contractor.

*HSU Capital Outlay Management Plan*, dated June 2008, states that throughout the construction process, the project manager reviews applications for payments and processes potential change orders. The director of FM reviews final payments.
ICSUAM §9803, *Contract Payment Procedures*, states that the construction administrator must approve all monthly partial payments to the contractor and all other project costs.

Government Code §13402 and §13403 state, in part, that state agencies are responsible for the establishment and maintenance of a system of internal accounting and administrative control that includes an established system of practices to be followed and an effective system of internal review.

The AVP of FPD stated that staff responsible for ensuring that the capital outlay management plan signature authority was implemented did not follow protocol. She further stated that four of the 12 payment applications were signed by the construction manager, who was verbally provided delegated authority from the construction administrator in his absence. She also stated that the incorrectly processed payment application was due to errors by the project manager and lack of appropriate review by the construction manager and campus construction administrator.

The absence of proper approval and review of contractor monthly payment applications increases the risk of misunderstandings regarding expenditure authority and processing errors.

**Recommendation 2**

We recommend that the campus:

a. Approve monthly payments to contractors in accordance with the campus capital outlay management plan, and properly review them prior to processing.

b. Pursue recovery of the $2,057.94 overpayment to the general contractor.

**Campus Response**

We concur. The campus will conduct a meeting/training prior to the start of our next major capital project in which review of ICSUAM requirements and the university’s Capital Outlay Management Plan will be reviewed. In addition, the university will endeavor to recover the $2,057.94 in overpayments to the general contractor.

The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.

The campus will seek to recover the overpayment to the general contractor by February 28, 2014.

**CERTIFIED PAYROLL RECORDS**

The campus did not always request certified payroll records and hourly labor rate worksheets for subcontractors in all tiers.
Specifically, we found that:

- The campus did not request or receive certified payroll records from 12 subcontractors.
- Hourly labor rate worksheets were not requested or received from the general contractor, 29 subcontractors, and two second-tier subcontractors.

This is a repeat finding from the prior construction audit of the Forbes Physical Education Complex in 2009.

ICSUAM §9824.01, *CSU Request for Certified Payroll*, states that the construction administrator 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. Having certified payroll, along with the hourly labor rate worksheet, will allow verification of payment of prevailing wage rates and will allow a check on wage rates submitted for change order work.

The AVP of FPD stated that the work conducted by these subcontractors occurred late in the project and was missed due to oversight. She also stated that hourly labor rate worksheets were only requested as part of the documentation requirement for contractor change order requests, which resulted in the collection of these worksheets for some, but not all, subcontractors. She further stated that university management did not provide the appropriate level of oversight or training, which would have prevented this deficiency.

Lack of certified payrolls and hourly labor rate worksheets prevents verification of wage rates submitted for change order work and may result in the campus being charged excess labor costs.

**Recommendation 3**

We recommend that the campus request certified payroll records and hourly labor rate worksheets for subcontractors in all tiers and use them to verify payment of prevailing wage rates and wage rates submitted for change order work.

**Campus Response**

We concur. The campus will conduct a training session with all construction management staff concerning ICSUAM requirements associated with certified payroll records and hourly labor rate worksheets.

Estimated completion date: February 28, 2014

**GROUP II EQUIPMENT**

Administration of Group II equipment purchased for the CCA project required improvement.
Specifically, we found that:

- Sensitive or high-risk equipment and capitalized property with an acquisition cost of more than $5,000 was not always tagged with a unique identification number.

- Kitchen equipment purchased for the marketplace, with a total cost of $269,053, was inaccurately capitalized as buildings.

HSU University Procedures Manual states that capitalized and non-capitalized university equipment must be tagged or marked with a unique identification number and recorded in the property database. It further states that departments with equipment susceptible to theft or loss should consider implementing one or more of the following protection measures: 1) ensure university equipment identification tags or permanent markings are visible on the equipment; 2) establish an internal check-out/check-in system for departmental equipment; 3) lock office equipment to desk or stands; and 4) utilize a security room or closet to store high-risk equipment.

ICSUAM §3151.04, Equipment, dated January 1, 2011, states that equipment with total acquisition cost of $5,000 or greater and a useful life of at least one year must be capitalized, tagged, and recorded in the campus property inventory records and included in the campus’ financial statements prepared in accordance with generally accepted accounting principles.

The AVP of FPD stated that the cited sensitive items were stored in a manner consistent with the university procedures manual and were stored within a locked telecom room where access is limited and regulated. She further stated that university management did not provide the appropriate level of oversight or training, which likely would have led to Group II equipment being properly tagged. She also stated that the kitchen equipment was not properly capitalized due to oversight.

Insufficient control over equipment increases the risk of theft, loss, or unauthorized use of state property and misstated property records.

Recommendation 4

We recommend that the campus:

a. Properly tag Group II equipment, including sensitive or high-risk equipment and capitalized property with an acquisition cost of more than $5,000 per individual item, with a unique identification number.

b. Identify which Group II equipment was inaccurately capitalized and reclassify it in the campus accounting records in accordance with generally accepted accounting principles.

Campus Response

We concur. The campus will conduct a joint training session with construction management and financial services staff concerning ICSUAM requirements associated with Group II equipment...
tagging and capitalization requirements. The campus will develop internal procedures to facilitate and ensure appropriate information is transferred between staff involved. In addition, the campus will reclassify the Group II equipment in the campus accounting records in accordance with generally accepted accounting principles.

Estimated completion date: March 28, 2014

CHANGE ORDER ADMINISTRATION

Administration of general contractor overhead and profit mark-ups needed improvement.

We reviewed overhead and profit mark-ups applied by the general contractor for five change orders, and we found overcharges of $46,993. Specifically:

- In 23 instances, the general contractor marked up trade subcontractor costs that already included a ten percent overhead and profit mark-up. This mark-up on mark-up created an overcharge of $3,708.

- In 11 instances, the general contractor did not apply a six percent mark-up on deleted change order items; therefore, the campus did not receive an additional credit amount of $42,822.

- In one instance, the general contractor applied a 15 percent overhead and profit mark-up, rather than the allowable ten percent. This resulted in an overcharge of $463.

This is a repeat finding from the prior construction audit of the Forbes Physical Education Complex in 2009.

The Contract General Conditions for Design-Bid-Build Projects §6.01.b (6) states when changed/added work is performed by a subcontractor, the contractor may add no more than ten percent mark-up to the subcontractor’s total direct cost estimate (excluding the subcontractor’s mark-up) for such work on the first $50,000; thereafter the mark-up is seven percent on the balance beyond $50,000. It further states where an item or section of work is deleted from the contract, the entire subcontract value or bid value shall be considered the appropriate deduction less the value of work performed, and shall have at least six percent mark-up added thereto for the contractor’s saved overhead, bonds, and insurance.

The AVP of FPD stated that university management did not provide the appropriate level of oversight or training, which would have prevented this deficiency.

Inadequate control over general contractor mark-ups increases the risk that errors and irregularities will not be detected and may result in increased project costs.
Recommendation 5

We recommend that the campus:

a. Pursue recovery of the $46,993 in overhead and profit mark-up overcharges and determine, as appropriate, if other change order work was cost-inflated in a similar manner. The results of this recovery should be reported to the chancellor's office Capital Planning, Design and Construction department.

b. Conduct staff training to ensure that general contractor mark-ups are appropriate and accurate in accordance with Contract General Conditions for Design-Bid-Build Projects §6.01.b (6).

Campus Response

We concur. The campus will conduct a training with all construction management staff prior to the start of our next major capital project in which ICSUAM requirements and Contract General Conditions are fully reviewed and understood. Furthermore, construction management staff will be required to utilize Capital Planning, Design and Construction department forms for administration of change orders. In addition, the campus will endeavor to recover the $46,993 in overpayments to the general contractor.

The campus does not currently have a major capital project planned due to lack of funding; however, meeting/ training sessions will be completed by March 28, 2014.

The campus will seek to recover the overpayment to the general contractor by February 28, 2014.

PROJECT COMPLETION AND CLOSEOUT

The campus did not execute change orders following the issuance of field instructions when the campus began occupying the residential complex, community center, and sports playing field.

Specifically, we found that the campus issued three separate field instructions to the general contractor starting on August 4, 2010, that notified the contractor that the campus was taking beneficial occupancy of the residential complex, community center, and sports playing field. However, the campus did not execute corresponding change orders following the issuance of these field instructions. This is a repeat finding from the prior construction audit of the Forbes Physical Education Complex in 2009.

ICSUAM §9830.02, Occupancy Prior to Acceptance, states that the Trustees reserve the right to occupy all or any part of a project prior to completion of the entire 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 that will document the date, liability, and start of warranty.
The AVP of FPD stated that university management did not provide the appropriate level of oversight or training, which would have prevented this deficiency.

A lack of change orders being properly executed prior to taking beneficial occupancy increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 6**

We recommend that the campus execute change orders following the issuance of field instructions when it begins occupying a project.

**Campus Response**

We concur. The campus will conduct a training with all construction management staff concerning ICSUAM requirements related to use and issuance of field instructions and change orders as related to occupancy.

The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td><strong>Office of the Chancellor</strong></td>
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</tr>
<tr>
<td>James Hoffman</td>
<td>Chief of Construction Management</td>
</tr>
<tr>
<td>Elvyra San Juan</td>
<td>Assistant Vice Chancellor, Capital Planning, Design and Construction</td>
</tr>
<tr>
<td><strong>Humboldt State University</strong></td>
<td></td>
</tr>
<tr>
<td>Rollin C. Richmond</td>
<td>President</td>
</tr>
<tr>
<td>Mark Baker</td>
<td>Senior Director, Plant Operations</td>
</tr>
<tr>
<td>Michael Burghart</td>
<td>Director of Contracts and Procurement</td>
</tr>
<tr>
<td>Traci Ferdelage</td>
<td>Associate Vice President of Facilities Planning and Design</td>
</tr>
<tr>
<td>Sandra Harpe</td>
<td>Accounting Technician, General Accounting</td>
</tr>
<tr>
<td>Cindy Hori</td>
<td>Financial Analyst, Financial Services</td>
</tr>
<tr>
<td>Kristi Janowski</td>
<td>Project Manager, Facilities Management</td>
</tr>
<tr>
<td>Joyce Lopes</td>
<td>Vice President of Administrative Affairs</td>
</tr>
<tr>
<td>Carol Lorentzen</td>
<td>Associate Vice President of Business Services</td>
</tr>
</tbody>
</table>
January 16, 2014

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

Updated Revision on Audit Report 13-12 Construction Audit College Creek Apartments

Dear Mr. Mandel:

Please find enclosed Humboldt State University’s response to the findings contained in Audit Report 13-12 Construction Audit College Creek Apartments. HSU’s responses to #1, #2, #3, #4, #5, and #6 have been updated to reflect a resolution date of March 28, 2014.

Please review the information and let us know if there are any questions, or if we can provide additional information. We appreciate the effort you and your staff have made to indicate areas where our procedure could be strengthened.

Please direct questions regarding the responses to Carol Lorentzen, Associate Vice President, Business Services, at (707) 826-5728 or carol.lorentzen@humboldt.edu.

Sincerely,

Joyce Lopes
Vice President of Administration

C: Rollin C. Richmond, President
Carol Lorentzen, Associate Vice President of Business Services
CONSTRUCTION
HUMBOLDT STATE UNIVERSITY
COLLEGE CREEK APARTMENTS
Audit Report 13-12

PROJECT DEVELOPMENT AND DESIGN

Recommendation 1

We recommend that the campus:

a. Approve ESA letters in accordance with the campus capital outlay management plan.

b. Conduct staff training to ensure that ESA letters are prepared and approved in accordance with ICSUAM §9210.03, Extra Services Changes to Professional Agreements, and properly reviewed prior to processing.

c. Pursue recovery of the $720 overpayment to the architect.

Campus Response

We concur. The campus will conduct a meeting/training prior to the start of our next major capital project in which review of ICSUAM requirements and the university’s Capital Outlay Management Plan will be reviewed. In addition, the university will endeavor to recover the $720 in overpayments to the architect.

Estimated completion date: The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.

The campus will seek to recover the overpayment to the general contractor by February 28, 2014.

CONSTRUCTION MANAGEMENT AND ACCOUNTING

MONTHLY PAYMENT APPLICATIONS

Recommendation 2

We recommend that the campus:

a. Approve monthly payments to contractors in accordance with the campus capital outlay management plan, and properly review them prior to processing.

b. Pursue recovery of the $2,057.94 overpayment to the general contractor.
Campus Response

We concur. The campus will conduct a meeting/training prior to the start of our next major capital project in which review of ICSUAM requirements and the university’s Capital Outlay Management Plan will be reviewed. In addition, the University will endeavor to recover the $2,057.94 in overpayments to the general contractor.

Estimated completion date: The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.

The campus will seek to recover the overpayment to the general contractor by February 28, 2014.

CERTIFIED PAYROLL RECORDS

Recommendation 3

We recommend that the campus request certified payroll records and hourly labor rate worksheets for subcontractors in all tiers and use them to verify payment of prevailing wage rates and wage rates submitted for change order work.

Campus Response

We concur. The campus will conduct a training session with all construction management staff concerning ICSUAM requirements associated with certified payroll records and hourly labor rate worksheets.

Estimated completion date: February 28, 2014

GROUP II EQUIPMENT

Recommendation 4

We recommend that the campus:

a. Properly tag Group II equipment, including sensitive or high-risk equipment and capitalized property with an acquisition cost of more than $5,000 per individual item, with a unique identification number.

b. Identify which Group II equipment was inaccurately capitalized and reclass it in the campus accounting records in accordance with generally accepted accounting principles.

Campus Response

We concur. The campus will conduct a joint training session with construction management and financial services staff concerning ICSUAM requirements associated with Group II equipment tagging and capitalization requirements. The campus will develop internal procedures to facilitate and ensure appropriate information is transferred between staff involved. In addition, the campus will reclassify the Group II equipment in the campus accounting records in accordance with generally accepted accounting principles.
Estimated completion date: March 28, 2014

CHANGE ORDER ADMINISTRATION

Recommendation 5

We recommend that the campus:

a. Pursue recovery of the $46,993 in overhead and profit mark-up overcharges and determine, as appropriate, if other change order work was cost-inflated in a similar manner. The results of this recovery should be reported to the chancellor’s office Capital Planning, Design and Construction department.

b. Conduct staff training to ensure that general contractor mark-ups are appropriate and accurate in accordance with Contract General Conditions for Design-Bid-Build Projects §6.01.b (6).

Campus Response

We concur. The campus will conduct a training with all construction management staff prior to the start of our next major capital project in which review of ICSUAM requirements and Contract General Conditions are fully reviewed and understood. Furthermore, construction management staff will be required to utilize Capital Planning, Design and Construction department forms for administration of change orders. In addition, the campus will endeavor to recover the $46,993 in overpayments to the general contractor.

Estimated completion date: The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.

The campus will seek to recover the overpayment to the general contractor by February 28, 2014.

PROJECT COMPLETION AND CLOSEOUT

Recommendation 6

We recommend that the campus execute change orders following the issuance of field instructions when it begins occupying a project.

Campus Response

We concur. The campus will conduct a training with all construction management staff concerning ICSUAM requirements related to use and issuance of field instructions and change orders as related to occupancy.

Estimated completion date: The campus does not currently have a major capital project planned due to lack of funding; however, meeting/training sessions will be completed by March 28, 2014.
February 3, 2014

MEMORANDUM

TO: Mr. Larry Mandel  
Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White  
Chancellor

SUBJECT: Draft Final Report 13-12 on the College Creek Apartments, Humboldt State University

In response to your memorandum of February 3, 2014, I accept the response as submitted with the draft final report on the College Creek Apartments, Humboldt State University.

TPW/amd