

CONSTRUCTION

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

BELLA MONTAÑA FACULTY AND STAFF HOUSING

**Audit Report 09-23
September 22, 2009**

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ABBREVIATIONS

BOT	Board of Trustees
CPHC	Cal Poly Housing Corporation
CSU	California State University
EIR	Environmental Impact Report
Housing	Bella Montaña Faculty and Staff Housing
OUA	Office of the University Auditor
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

At its January 2009 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 Polytechnic State University, San Luis Obispo campus, Cal Poly Housing Corporation, and the offices of the builder from April 27, 2009, through May 15, 2009, and audited the Bella Montaña Faculty and Staff Housing (Housing) project focusing on the construction management policies, procedures, internal controls, and processes in effect at that time.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant risk exposures for future construction activity if not corrected. Specifically, the campus did not maintain adequate internal controls and processes over the following areas: construction policies and procedures and subcontractor contracts. These conditions, along with other reportable weaknesses, are described in the executive summary and body of this report. In our opinion, except for the effect of the weaknesses described above, 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 deemed satisfactory. Numbers in brackets [] refer to page numbers in the report.

GENERAL CONTROL ENVIRONMENT [7]

Cal Poly Housing Corporation (CPHC) had not developed policies and procedures for the administration of its construction activities.

PRE-CONSTRUCTION AND BID PROCESS [8]

Contracts executed by the design-builder with its subcontractors did not contain a right-to-audit provision permitting CPHC to examine trade subcontractor accounting records and other related materials and interview employees.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [9]

CPHC had not developed a procedure to document changes to the original materials and equipment specifications provided by the design-builder, and the inspection services agreement between the campus and CPHC did not clearly define the scope of inspection activities and specific deliverables.

CHANGE ORDER ADMINISTRATION [11]

Change orders were not always supported by sufficient documentation. Further, field instructions were not incorporated into change orders in a timely manner, and total costs on certain field instructions either exceeded actual documented costs or pre-approved “not-to-exceed” amounts. In addition, trade subcontractors were not required to identify the amount of overhead and profit mark-up included in their change orders, which prevented the verification of mark-ups charged.

INTRODUCTION

BACKGROUND

In March 2002, the Board of Trustees (BOT) approved schematic plans and the final environmental impact report (EIR) for the California Polytechnic State University, San Luis Obispo Faculty and Staff Housing at Site H-8 (later renamed Bella Montaña Faculty and Staff Housing) project at a project cost of \$16,155,000. The Cal Poly Housing Corporation (CPHC) developed and owns this project; no state funds were used. In April 2002, a neighborhood organization challenged the final EIR; a subsequent court ruling upheld the validity of the final EIR in all but four areas. In November 2003, the BOT approved a supplement to the final EIR that addressed the four areas of concern. During 2004, the previously selected design-builder, BDC Development Corporation, completed the project schematic design and, in April 2005, executed a cost plus contract with CPHC including a guaranteed maximum price of \$16,584,310. CPHC subsequently executed an agreement with Hoffman Associates, Inc. for construction management services. The construction manager provided program evaluation; project coordination, management, and reporting; change order, progress payment, and closeout administration; and quality control.

The CPHC mission is to support the academic mission of the campus by planning, developing, and operating housing programs. The Bella Montaña Faculty and Staff Housing (Housing) project met this mission by providing housing for purchase to campus faculty and staff at below market value. San Luis Obispo's high cost of housing has made this type of project critical to the campus' long-term goals related to attracting and retaining the highest caliber of faculty and staff. The Housing project is located on 5.6 previously undeveloped acres, directly adjacent to the campus, and consists of 21 buildings, encompassing 69 two and three bedroom-attached homes with common and private green areas throughout the site. The design-builder completed the buildings in three phases, with the first phase substantially completed in November 2005, the second phase in April 2007, and the final phase in June 2007. CPHC filed the Notice of Completion on November 15, 2007.

The CPHC managed the Housing project and chose the Design-Build delivery method. In this method, the CPHC contracts for design and construction aspects with a single design-builder who has full responsibility for finalizing a design that meets or exceeds CPHC's performance expectations as well as implementing that design. The design-build entity is responsible for the adequacy of design and any construction defects, which allows the CPHC to avoid these types of claims and limits errors and omissions change orders. Further, the design-build approach shortens project completion by streamlining the design and construction project phases and minimizes CPHC's need to schedule and coordinate the overall project. CPHC contracted with a separate construction management firm to provide oversight of the design-build entity's costs, project schedule, and quality of work.

Title 5 §42500 lists 12 functions that the BOT has determined to be appropriate for auxiliary organizations to perform, which include the acquisition, development, sale, and transfer of real and personal property including financing transactions related to these activities. Further, Title 5 §42501 states that a written agreement on behalf of the State of California executed by the chancellor of the California State University (CSU) and the auxiliary is required for the performance of these functions by the auxiliary organization.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* §7.4, *Construction on Campus—Capital Outlay Projects*, states that construction projects on CSU campuses are subject to the policies of the BOT and the campus. All such projects funded or administered by auxiliary organizations shall be coordinated with the respective campus administration. All non-state funded capital outlay construction on campus is subject to campus physical master plan requirements and must be approved in the BOT's non-state capital outlay program.

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:

- ▶ The auxiliary received approval to engage in the acquisition, sale, and transfer of real and personal property, including the financing transactions related to these activities as required by Title 5.
- ▶ Project development is in accordance with statutory and CSU policy requirements, including required BOT and Capital Planning, Design and Construction approvals.
- ▶ Administration and management of the project provide effective internal controls and processes consistent with auxiliary policies and procedures.
- ▶ Professional appointments are in accordance with auxiliary policies and procedures 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 for the builder and trade subcontractors is rigidly controlled and performed in accordance with statutory requirements.
- ▶ Contract documents are complete, and timely executed; required contract bonds and insurance are received; and a Notice to Proceed is issued.
- ▶ Subcontractors are adequately monitored.
- ▶ 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 paid timely; and retention is handled in accordance with contract terms.

- ▶ 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, auxiliary, builder, 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, auxiliary policy and procedures, 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 the auxiliary's internal policies and procedures and the 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 construction manager and trade subcontractor 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.

INTRODUCTION

- ▶ Direct labor and associated burden charged by the construction manager and trade subcontractors.
- ▶ 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

GENERAL CONTROL ENVIRONMENT

Cal Poly Housing Corporation (CPHC) had not developed policies and procedures for the administration of its construction activities.

Specifically, policies and procedures had not been developed to address:

- ▶ Project development and design occurring both on and off campus-owned property.
- ▶ Procurement, bidding, and contract award processes for design, construction, inspection, and special consultant services, including specific bidding and sole source justification requirements.
- ▶ Construction project management and reporting, including oversight of third-party designers, contractors, inspectors, and other construction consultants.
- ▶ Construction project budgeting, accounting, and progress payment processing.
- ▶ Change order administration, including required documentation and approval and the types of transactions permitted to be included on change orders (e.g., value-engineering, owner's contingency use, and allowance usage).
- ▶ Project closeout actions and documentation requirements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees (BOT) and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the development of policies and procedures to address the administration of construction activities.

The CPHC managing director stated that the Bella Montaña Faculty and Staff Housing project was the auxiliary's first construction project; therefore, CPHC did not have policies or procedures that specifically addressed construction projects. He further stated that CPHC hired a construction manager that was familiar with BOT and campus construction policies and guidelines and relied upon his expertise during the construction of this project.

The absence of written policies and procedures to address the administration of construction activities increases the risk of project delays, inferior construction, excessive costs, errors or misappropriation, and overall ineffective project management.

Recommendation 1

We recommend that CPHC develop written policies and procedures to address its administration of construction activities.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future CPHC housing construction projects.

Completion: January 31, 2010

PRE-CONSTRUCTION AND BID PROCESS

Contracts executed by the design-builder with its subcontractors did not include a right-to-audit provision permitting CPHC to examine trade subcontractor accounting records and other related materials and interview employees.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that trade subcontractor agreements contain a right-to-audit provision.

The CPHC managing director stated that he was unaware of any requirement for a California State University (CSU) auxiliary to include a right-to-audit provision in trade subcontractor construction contracts.

The absence of a right-to-audit provision limits the auxiliary's ability to adequately evaluate and verify compliance with contract requirements and to identify potential overcharges.

Recommendation 2

We recommend that CPHC ensure that contracts executed with trade subcontractors include a right-to-audit provision.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the SUAM for future CPHC housing construction projects, including a right-to-audit provision for trade subcontractors.

Completion: January 31, 2010

CONSTRUCTION MANAGEMENT AND ACCOUNTING

PROJECT SPECIFICATION

CPHC had not developed a procedure to document changes to the original materials and equipment specifications provided by the design-builder.

We noted several differences between the original July 2004 materials and equipment specifications list and the final list provided to homeowners after December 2006. Specifically, certain appliances, flooring, and water heaters included on the original list either differed from the homeowners' list or were not described with enough specificity to determine if the final specifications conformed with the original list. Further, there was no supporting documentation to show that CPHC had accepted and approved the changes in advance of installation.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the tracking and approval of changes to project specifications to ensure that the final, as-built, project meets owner expectations.

The CPHC managing director stated that all changes to specifications were discussed at weekly construction meetings and noted by the construction manager. He added that any changes agreed to at these meetings were upgrades from the original specifications.

Failure to adequately track and approve changes to project specifications increases the risk that inferior or unsuitable materials and equipment will be used.

Recommendation 3

We recommend that CPHC develop a written procedure to track and approve changes to project specifications throughout the project design and construction phases.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the SUAM for future CPHC housing construction projects, including a written procedure to track and approve changes to project specifications throughout the project design and construction phase.

Completion: January 31, 2010

INSPECTION SERVICES

The inspection services agreement between the campus and CPHC did not clearly define the scope of inspection activities and specific deliverables.

We reviewed the inspection services agreement and inspection documentation and found that the agreement did not:

- ▶ Require the campus inspector to review and sign the monthly payment applications, as required by the construction manager's agreement. Consequently, our review of payment applications disclosed no inspector approvals.
- ▶ Clearly segregate the types of inspections between the campus inspector and construction manager's inspector. As a result, the responsibility for and distinction between code and quality control compliance inspections between the two inspectors were undefined.
- ▶ Specify the type and form of inspection documentation to be submitted to CPHC. We noted several types of inspection records, including campus inspector daily and weekly inspection reports, inspection records by housing units, and handwritten inspection notes by the construction manager's inspector. Further, it was undeterminable which document was deemed the official inspection of record.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the scope of business arrangements be clearly defined in written agreements.

The campus director of contracts, procurement and risk management stated that the ground lease between the CSU Board of Trustees and CPHC deliberately segregated and allocated risks by identifying the responsibilities of the campus and CPHC, and the code compliance inspection services agreement is consistent with the ground lease. He further stated that the main purpose of the inspection services agreement was to establish the jurisdictional authority/responsibility of the campus as "the inspector of record" and affirm that the campus will approve all plans and specifications for compliance with the California building code and other applicable laws and regulations. He added his belief that this type of agreement would not go into the specific details regarding the approval of payment applications, the responsibilities of other inspection service providers, or the type of documentation to be submitted to CPHC.

The absence of a written agreement that clearly defines the scope of inspection activities and specific deliverables increases the risk that all required inspections will not be performed and adequately documented and misunderstandings and miscommunications regarding rights and responsibilities will occur, and subjects the auxiliary and CSU to potential liability.

Recommendation 4

We recommend that the campus and CPHC work together to ensure that future inspection services agreements clearly define the scope of inspection activities and specific deliverables.

Campus Response

We concur. The university and the CPHC will utilize policies and procedures as written in the SUAM for future CPHC housing construction projects, including future inspection agreements that clearly define the scope of inspection activities and specific deliverables.

Completion: January 31, 2010

CHANGE ORDER ADMINISTRATION

DOCUMENTATION

Change orders were not always supported by sufficient documentation.

We reviewed eight project change orders and found three change orders for the substitution of bathroom vanity tops, the addition of tiled entries, and improvements to an adjacent intersection that did not include complete cost information.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all change orders be fully supported by sufficient documentation.

The CPHC managing director stated that these change orders were discussed at the weekly construction meetings and sufficient documentation was maintained in the construction manager's job files to demonstrate that the extra costs were appropriate. He added that the incremental cost for the upgrades was identified on the change orders.

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

Recommendation 5

We recommend that CPHC conduct staff training on the sufficiency and maintenance of supporting documentation for change orders.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the SUAM for future CPHC housing construction projects, including training for construction management staff on the sufficiency and maintenance of supporting documentation for change orders for future CPHC construction projects.

Completion: January 31, 2010

FIELD INSTRUCTIONS

Administration of construction manager field instructions needed improvement.

A field instruction is a written communication to the design-builder issued by the project inspector or construction manager. We reviewed field instructions included in the final project change order and noted the following:

- ▶ Field instructions were not incorporated into change orders in a timely manner. All 41 project field instructions were included in the final change order and were dated between May 17, 2005, and October 10, 2007.
- ▶ Total costs charged on four field instructions exceeded actual documented costs by \$5,217.
- ▶ Total costs on three field instructions exceeded the pre-approved “not-to-exceed” amount; differences ranged from \$2,522 to \$3,640.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the adequate administration over field instructions.

The CPHC managing director stated that the construction manager was responsible for administering field instructions to the design-builder and did obtain specific cost information allowing him to verify the actual cost of field instruction items. He added that these items were reviewed at the weekly construction meetings.

Inadequate administration of field instructions increases the risk that errors and irregularities will not be detected and excess charges and expenses will be incurred.

Recommendation 6

We recommend that CPHC:

- a. Reiterate to the construction manager that field instructions are to be processed in a timely manner and the “not-to-exceed amount” should not be paid without CPHC approval.
- b. Pursue recovery of the \$5,217 in excess of actual documented costs from the design-builder.

Campus Response

We concur.

- a. For future CPHC construction projects, the construction manager will process field instructions in a timely manner and require that the “not-to-exceed” amount should not be paid without approval.

Completion: January 31, 2010

- b. CPHC will pursue recovery of the \$5,217 in excess of the actual documented costs from the design-builder by sending a demand letter and supporting documentation to the construction manager and/or the design/builder.

Completion: January 31, 2010

MARK-UPS

Trade subcontractors were not required to identify the amount of overhead and profit mark-up included in their change orders, which prevented the verification of mark-ups charged.

The contract between the CPHC and the design-builder allowed the design-builder and trade subcontractors to add a 5.5 and 15 percent mark-up, respectively, to all extra work on the project. During our review of change orders, we noted that the amount or percentage of trade subcontractor mark-up was not identified. We also reviewed records maintained by the construction manager and found that at least one trade subcontractor increased its direct cost of extra work by a 15 percent mark-up, but those documents were never submitted to CPHC.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the adequate administration of contractor mark-ups.

The CPHC managing director stated that most subcontractors did not include a mark-up on change orders. He further stated his belief that any mark-ups that were taken were properly identified.

Failure to require identification of and review trade subcontractor mark-ups on change orders increases the risk that errors and irregularities will not be detected and may result in increased project costs.

Recommendation 7

We recommend that CPHC require trade subcontractors to identify the amount of mark-up on all change orders and review mark-ups charged for compliance with contract provisions.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the SUAM for future CPHC housing construction projects, including the requirement that trade subcontractors identify the amount of mark-up on all change orders. CPHC will review the actual mark-ups charged for compliance with contract provisions.

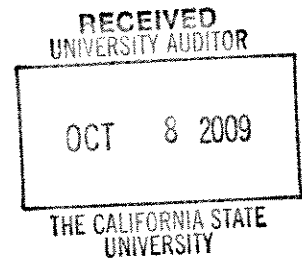
Completion: January 31, 2010

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
<u>California Polytechnic State University, San Luis Obispo</u>	
Warren J. Baker	President
Lawrence Kelley	Vice President of Administration and Finance
Robert Kitamura	Director of Facilities Planning and Capital Projects
Lorlie Leetham	Director of Fiscal Services
Rick Ramirez	Associate Vice President of Finance
Matt Roberts	Director of Contracts, Procurement and Risk Management
Johan Uyttewaal	Associate Director of Facilities Planning and Capital Projects
Karen Webb	Assistant Vice President of Administration
<u>Cal Poly Housing Corporation</u>	
James Reinhart	Managing Director



California Polytechnic State University
San Luis Obispo, CA 93407
Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560



06 October 2009

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

Subject: Campus Responses to Recommendations of Audit Report Number 09-23, Bella Montaña Faculty and Staff Housing at California Polytechnic State University, San Luis Obispo

Dear Larry:

Enclosed in reply to your 23 September 2009 letter to President Baker, are Cal Poly's responses to the Bella Montaña construction project audit report (Audit Report No. 09-23). The responses are submitted to you for review and for acceptance by the Chancellor. The responses include a corrective action plan and time frame for completion.

Please direct questions to Rick Ramírez, Associate Vice President for Finance, at 805-756-2091 (rramirez@calpoly.edu).

Sincerely,

Lawrence Kelley
Vice President for Administration & Finance

cc: W. Baker, R. Ramírez

CONSTRUCTION

CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO

BELLA MONTAÑA FACULTY AND STAFF HOUSING

Audit Report 09-23

GENERAL CONTROL ENVIRONMENT

Recommendation 1

We recommend that CPHC develop written policies and procedures to address its administration of construction activities.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future CPHC housing construction projects.

Completion: January 31, 2010.

PRE-CONSTRUCTION AND BID PROCESS

Recommendation 2

We recommend that CPHC ensure that contracts executed with trade subcontractors include a right-to-audit provision.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future housing CPHC construction projects, including a right to audit provision for trade subcontractors.

Completion: January 31, 2010.

CONSTRUCTION MANAGEMENT AND ACCOUNTING

PROJECT SPECIFICATION

Recommendation 3

We recommend that CPHC develop a written procedure to track and approve changes to project specifications throughout the project design and construction phases.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future CPHC housing construction projects, including a written procedure to track and approve changes to project specifications throughout the project design and construction phase.

Completion: January 31, 2010.

INSPECTION SERVICES

Recommendation 4

We recommend that the campus and CPHC work together to ensure that future inspection services agreements clearly define the scope of inspection activities and specific deliverables.

Campus Response

We concur. The university and the CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future CPHC housing construction projects, including future inspection agreements that clearly define the scope of inspection activities and specific deliverables.

Completion: January 31, 2010.

CHANGE ORDER ADMINISTRATION

DOCUMENTATION

Recommendation 5

We recommend that CPHC conduct staff training on the sufficiency and maintenance of supporting documentation for change orders.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future CPHC housing construction projects, including training

for construction management staff on the sufficiency and maintenance of supporting documentation for change orders for future CPHC construction projects.

Completion: January 31, 2010.

FIELD INSTRUCTIONS

Recommendation 6

We recommend that CPHC:

- a. Reiterate to the construction manager that field instructions are to be processed in a timely manner and the “not-to-exceed amount” should not be paid without CPHC approval.
- b. Pursue recovery of the \$5,217 in excess of actual documented costs from the design-builder.

Campus Response

We concur.

- a. For future CPHC construction projects, the construction manager will process field instructions in a timely manner and require that the “not to exceed” amount should not be paid without approval.

Completion: January 31, 2010.

- b. CPHC will pursue recovery of the \$5,217 in excess of the actual documented costs from the design-builder by sending a demand letter and supporting documentation to the construction manager and or the design/builder.

Completion: January 31, 2010.

MARK-UPS

Recommendation 7

We recommend that CPHC require trade subcontractors to identify the amount of mark-up on all change orders and review mark-ups charged for compliance with contract provisions.

Campus Response

We concur. The CPHC will utilize policies and procedures as written in the State University Administrative Manual (SUAM) for future CPHC housing construction projects, including the requirement that trade subcontractors identify the amount of mark-up on all change orders. CPHC will review the actual mark-ups charged for compliance with contract provisions.

Completion: January 31, 2010.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 20, 2009

CHANNEL ISLANDS

CHICO

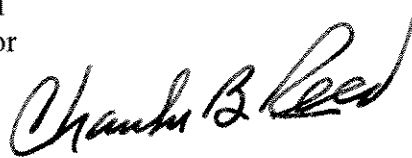
MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor


FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-23 on *Bella Montaña Faculty and Staff Housing*, California Polytechnic State University, San Luis Obispo

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 20, 2009, I accept the response as submitted with the draft final report on the *Bella Montaña Faculty and Staff Housing* construction project, California Polytechnic State University, San Luis Obispo.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS