

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS

JOHN SPOOR BROOME LIBRARY

Audit Report 09-26
February 11, 2010

Members, Committee on Audit

Melinda Guzman, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter Carol R. Chandler
Kenneth Fong Margaret Fortune
George G. Gowgani William Hauck
Henry Mendoza

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
Audit Manager: Aaron Bolin

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

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

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Construction Management and Accounting	8
Labor Rate Worksheets.....	8
Subcontractors	9
Change Order Administration.....	10
Documentation	10
Labor Rates and Burden	11
Project Completion and Closeout	12

APPENDICES

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

ABBREVIATIONS

BOT	Board of Trustees
CPDC	Capital Planning, Design and Construction
CRB	Certification Review Board
CSU	California State University
EO	Executive Order
Library	John Spoor Broome Library
OPC	Operations, Planning and Construction
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 State University, Channel Islands campus and the offices of the design-builder and selected subcontractors from July 20, 2009, through August 24, 2009, and audited the John Spoor Broome Library (Library) 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 Library 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.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [8]

The campus did not request hourly labor rate worksheets for all trade subcontractors, which prevented it from verifying wage rates submitted for change order work. In addition, the campus did not ensure that the design-builder submitted an expanded list of subcontractors in a timely manner.

CHANGE ORDER ADMINISTRATION [10]

Change orders were not always supported by sufficient documentation. Five project change orders, totaling \$4,595,446, did not include complete cost information, and one trade subcontractor was unable to provide cost documentation for the \$31,250 cost escalation for specialized glass. In addition, labor rates charged for change order work by two trade subcontractors differed from previously submitted labor rate worksheets.

PROJECT COMPLETION AND CLOSEOUT [12]

The campus did not issue a field instruction or change order to the design-builder when the State Fire Marshal granted a temporary certificate of occupancy on August 20, 2008.

INTRODUCTION

BACKGROUND

In 1999, philanthropist John Spoor Broome donated \$5 million to build a library at the California State University (CSU), Channel Islands campus, which at that time operated as a satellite facility for the CSU Northridge campus. The CSU Channel Islands campus officially opened in August 2002. Because the campus had not yet received delegated authority to manage its own capital outlay program, the chancellor's office Capital Planning, Design and Construction (CPDC) department managed the planning and design phases of the John Spoor Broome Library (Library) project. CPDC engaged the architectural firm of Leo A. Daly to work with Foster and Partners to create the original design.

In July 2001, the Board of Trustees (BOT) approved schematic plans for the Library project at a project cost of \$42,712,000 with funding from non-state funds financed through revenue bonds sold by the California State University Channel Islands Site Authority and the aforementioned donor funds. At that time, CPDC expected that construction documents would be completed by December 2002 and construction would commence by February 2003, with an anticipated completion date of December 2004. However, the first several design attempts far exceeded the \$44 million construction budget, and an unsuccessful attempt to bid the project in April 2004 resulted in a change from the original Design-Bid-Build delivery method to the Design-Build delivery method.

The campus successfully bid the project in January 2005 and received delegated authority to manage its own capital outlay program that same month. The campus executed a design and construction agreement with PCL Construction Services, Inc. on April 27, 2005, at a cost of \$44million and issued the Notice to Proceed on April 29, 2005, with a contract completion date of January 31, 2008. The campus received a Certificate of Occupancy on March 6, 2008, and filed a Notice of Completion on March 7, 2008.

Architect, Lord Norman Foster, designed the Library. It is a 137,000 square foot facility, which houses 75,000 bound volumes and more than 180,000 electronic books, and can accommodate 1,800 users at one time. The Library integrated existing structures with a new open space consisting of glass, metal, and concrete. The Library's central area is a large reading room with a translucent glass ceiling over the building's third level. The translucent ceiling provides natural lighting for much of the building during daylight hours. The reading room is flanked on three sides by two floors of original 1930s construction that has been renovated for book stacks and classrooms. The outside of the Library consists of a canopy with louvers that extend over an entry plaza and a reflecting pool.

The CSU Channel Islands campus managed the Library project, and the Design-Build delivery method was chosen. In this method, the campus contracts for design and construction aspects with a single design-builder who has full responsibility for finalizing a design that meets or exceeds campus' 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 campus 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 the campus' 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 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 Section §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 Library project.

Within the overall audit objective, specific goals included determining whether:

- ▶ Authority has been delegated to manage capital outlay projects and the campus capital outlay management plan is current for campus-managed projects.
- ▶ Project development is in accordance with statutory and CSU policy requirements, including required BOT and CPDC approvals.
- ▶ Administration and management of the project provide effective internal controls and processes consistent with the campus capital outlay management plan and the SUAM.
- ▶ Professional appointments are in accordance with statutory requirements, BOT policy, and the SUAM; and systemwide standardized professional appointment contract forms are used, approved by the Office of General Counsel, and fully executed prior to performance of work.
- ▶ Extra services are appropriate, authorized, and separately tracked; and an evaluation is performed for each professional service provided.
- ▶ The bidding process is rigidly controlled, performed in accordance with statutory requirements and the SUAM, and incorporates the contract documents maintained on the CPDC website.
- ▶ Contract documents are complete, routed to the Office of General Counsel as appropriate, and timely executed; required contract bonds and insurance are received; and a Notice to Proceed is issued.
- ▶ Subcontractors are adequately monitored, and requests for subcontractor substitutions are handled in accordance with statutory requirements and the SUAM.
- ▶ Operational and administrative controls ensure maintenance of financial accountability and completion of the project within the approved scope, schedule, and budget.
- ▶ Contract and service agreement payments are adequately supported, appropriately approved, and timely paid; and retention is handled in accordance with statutory requirements and the SUAM.

- ▶ Equipment is procured in the most economical method; purchased materials meet specifications required by construction documents and drawings; and all required inspections and tests are timely and properly performed and adequately documented.
- ▶ Change orders are appropriately approved, supported, accurately priced, and sufficiently tracked; and construction allowances and contingency balances are adequately administered and controlled.
- ▶ Project completion is adequately administered, including completion of pre-final/final inspections, punch list items, project closeout checklist, and Notice of Completion; preservation of project files, equipment manuals/warranties, and spare parts/materials; and resolution of any liquidated damages.

SCOPE AND METHODOLOGY

The scope of audit included, but was not limited to, the review of design budgets and costs; the bid and award process; invoice processing and payment; change orders; construction management, architectural, and engineering services; use of major equipment/materials; the closeout process; administration of liquidated damages; and overall project cost accounting and reporting. This included any transactions or activity performed by the campus, construction management firm, and trade subcontractors.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, BOT policies, and Office of the Chancellor and campus policies, letters, and directives.

We focused primarily on the operational and administrative controls in effect for the Library 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.

INTRODUCTION

- ▶ 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

CONSTRUCTION MANAGEMENT AND ACCOUNTING

LABOR RATE WORKSHEETS

The campus did not request hourly labor rate worksheets for all trade subcontractors, which prevented it from verifying wage rates submitted for change order work.

State University Administrative Manual (SUAM) §9824.01 states that the contractor shall submit to the construction administrator the hourly labor rate worksheet for its entire payroll, as well as for all of its subcontractors. Having hourly labor rate worksheets allows a check on wage rates submitted for change order work.

The director of construction and operations for operations, planning and construction (OPC) stated that the campus only requested labor rate worksheets from trade subcontractors that performed change order work on a time and material cost basis.

Failure to request and use hourly labor rate worksheets prevents the campus from verifying the wage rates submitted for change order work, which may result in the contractor charging the campus excess labor costs.

Recommendation 1

We recommend that the campus reiterate to staff that hourly labor rate worksheets for all trade subcontractors should be requested and used to verify wage rates submitted for change order work.

Campus Response

The campus agrees that labor rate worksheets were not collected for all the subcontractors. For this project, the campus collected labor rate worksheets only from subcontractors who performed work on a time and materials basis. It should be noted that when the construction phase started in 2005, the campus had recently received delegation authority. When the John Spoor Broome Library project started, the campus was still in the process of setting up internal operating procedures. The campus' current practice is to collect hourly labor rate worksheets from all subcontractors within the first 30 days of Notice to Proceed. The campus started following this practice beginning with the Santa Cruz Village Housing project, which started in 2006. KPMG has completed an audit of the Santa Cruz Village project. KPMG verified that the labor rate worksheets were collected for all subcontractors in compliance with SUAM requirements.

SUBCONTRACTORS

The campus did not ensure that the design-builder submitted an expanded list of subcontractors in a timely manner.

We found that the design-builder submitted the expanded list of subcontractors to the campus at the end of the project, specifically, three days prior to the Notice of Completion being filed.

Public Contract Code §4104 and §4110 state that the specifications prepared for the work or the general conditions under which bids will be received shall set forth that the prime contractor will provide the name and location of each subcontractor who will perform work or labor or render services to the prime contractor in an amount in excess of one-half of one percent of the prime contractor's total bid. A prime contractor violating any of the provisions of this chapter (the Subletting and Subcontracting Fair Practices Act, Public Contract Code §4100 *et seq.*) violates his or her contract and the awarding authority may exercise options, including cancelling the contract or assessing the prime contractor a penalty.

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

The OPC director of construction and operations stated that the campus had requested the expanded list of subcontractors from the design-builder, but failed to follow up when it did not receive the document.

Failure to ensure that the design-builder provides the campus with an expanded list of subcontractors in a timely manner results in non-compliance with the Subletting and Subcontracting Fair Practices Act and increases the risk that violations of the act will not be detected.

Recommendation 2

We recommend that the campus reiterate to staff that they should obtain the expanded list of subcontractors from the design-builder at the earliest possible date and that they should receive revisions whenever additional subcontractors are added.

Campus Response

The campus agrees that the expanded subcontractor list was not collected until late into the project. The campus' current practice is to require that contractors submit an updated expanded subcontractor list each month with the contractor's payment application. The campus started this practice in early 2009. The contractors understand that the payment applications would not be processed until the campus receives the updated expanded subcontractor list each month.

CHANGE ORDER ADMINISTRATION

DOCUMENTATION

Change orders were not always supported by sufficient documentation.

We reviewed 13 project change orders and found that:

- ▶ Five project change orders, totaling \$4,595,446, did not include complete cost information. The change orders were only supported by change order request summaries providing estimates of costs to the design-builder. In many cases, the cost estimates indicated payments to a trade subcontractor, but did not identify which trade subcontractor(s) did the work or provide a specific breakdown of the labor, materials, or equipment required for the additional construction work.
- ▶ One trade subcontractor was unable to provide cost documentation to support the cost escalation for specialized glass that was removed from the project scope during the design phase but added back during construction phase. The trade subcontractor indicated that the cost of specialized glass had increased \$31,250, but was unable to provide supporting vendor quotes or invoices.

The *Contract General Conditions for Design Build Projects* §37.01 states, in part, that the design-builder must keep and submit time and materials records verified by the construction inspector to substantiate its costs and to furnish such proof.

The OPC director of construction and operations stated that the campus revised its documentation requirements midway through the audit and now requires the builder to submit sufficient documentation to support all change order costs.

Failure to require sufficient supporting documentation for change orders increases the risk that errors and irregularities will not be detected and limits the ability of the Office of the University Auditor to verify these transactions for accuracy.

Recommendation 3

We recommend that the campus reiterate procedures to staff and conduct training to ensure that change orders are supported by sufficient documentation in accordance with §37.00, Changes in the Work, of the *Contract General Conditions for Design-Build Projects*.

Campus Response

The campus acknowledges that five change orders did not include complete cost information. It should be noted that these were the first five change orders processed for the contract. Although the documentation was not attached to the early change orders, all backup documentation was reviewed and the change order request value negotiated by the project manager prior to approval of the change order. The auditor expressed satisfaction regarding documentation attached to the change orders

beginning with Change Order 6. As noted in Response 1, the campus was in the process of setting up internal operating procedures when this project started. Currently, the campus requires full and complete documentation with each change order. As stated earlier, KPMG audited the change orders for the Santa Cruz Village project and found the documentation for every change order complete and properly documented.

LABOR RATES AND BURDEN

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

We reviewed labor rates charged by two trade subcontractors and noted variations from the hourly rate worksheets previously submitted to the campus.

- ▶ One trade subcontractor submitted a labor rate for change order work of \$56.52 per hour. However, the hourly rates included on change order estimates were either \$59.48 or \$65.78.
- ▶ A second trade subcontractor submitted a labor rate for change order work of \$58.73 per hour, which was later revised to \$62.00 per hour. However, the hourly rates included on change orders were \$55.71, \$62.00, or \$62.38.

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

The OPC director of construction and operations stated that the campus revised its procedures for reviewing change order documentation and now performs a more thorough review, including a review of subcontractor labor rates.

Failure to review hourly labor rates and associated labor burden may result in increased project costs.

Recommendation 4

We recommend that the campus conduct staff training to ensure that hourly and premium labor rates and the associated labor burden charged by trade subcontractors are appropriate and accurate in accordance with §37.00, Change in the Work, of the *Contract General Conditions for Design-Build Projects*.

Campus Response

The campus will conduct additional training regarding calculating labor rates and burden, as recommended. Currently, the campus conducts yearly refresher training for all project managers

regarding campus standard operating procedures, including calculations of labor rates and burden. We expect to have this completed by June 30th. As stated earlier, KPMG audited the change orders for the Santa Cruz Village project and found that the labor rates and burdens used for determining the changer order values were accurate in all cases.

PROJECT COMPLETION AND CLOSEOUT

The campus did not issue a field instruction or change order to the design-builder when the State Fire Marshal granted a temporary certificate of occupancy on August 20, 2008.

SUAM §9830.02 states that the Trustees reserve the right to occupy all or any part of a project prior to completion of the contract. In this event, the construction administrator shall issue a field instruction to the contractor, noticing the contractor that the campus will be taking beneficial occupancy of all or portions of the project on a specific date at a specific time. A change order must be executed which will document the date, liability, and start of warranty.

The OPC director of construction and operations stated that the campus failed to issue a field instruction or change order when the State Fire Marshal granted it a temporary certificate of occupancy due to oversight.

Failure to issue a field instruction and change order to the design-builder when beneficial occupancy is granted increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 5

We recommend that the campus reiterate to staff that a field instruction and change order should be issued to the design-builder when the State Fire Marshal grants a temporary certificate of occupancy.

Campus Response

Prior to this audit, the campus procedure was to issue a letter to the contractor establishing the date of substantial completion. The campus now issues a field instruction establishing the substantial completion date and incorporates the field instruction into a change order.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

Office of the Chancellor

Elvyra San Juan

Assistant Vice Chancellor,
Capital Planning, Design and Construction

California State University, Channel Islands

Richard R. Rush

President

Dave Chakraborty

Director of Construction and Operations for
Operations, Planning and Construction (OPC)

Teresa Cilley

Project Coordinator, OPC

Joanne Coville

Vice President for Finance and Administration

Emily Deakin

Controller

Diane Sutton

Project Support Coordinator, OPC

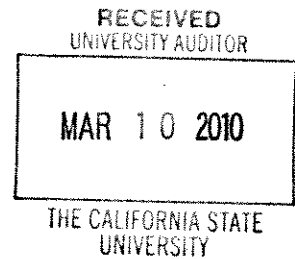
James Walsh

Manager of Construction Services, OPC

Deborah Wylie

Associate Vice President for OPC

March 8, 2010



Mr. Larry Mandel
University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4200

Dear Larry:

I am pleased to submit the campus response to the Incomplete Audit Report (09-26) for the John Spoor Broome Library construction project.

Please let me know if there is further information needed as you review our responses to the recommendations.

Very truly yours,



Joanne Coville
Vice President for Finance and Administration

Enclosure

cc: Dr. Richard Rush, CI President

JC/pam

CONSTRUCTION

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

JOHN SPOOR BROOME LIBRARY

Audit Report 09-26

CONSTRUCTION MANAGEMENT AND ACCOUNTING

LABOR RATE WORKSHEETS

Recommendation 1

We recommend that the campus reiterate to staff that hourly labor rate worksheets for all trade subcontractors should be requested and used to verify wage rates submitted for change order work.

Campus Response

The Campus agrees that Labor Rate Worksheets were not collected for all the subcontractors. For this project, the Campus collected labor Rate Worksheets only from subcontractors who performed work on a T&M basis.

It should be noted that when the construction phase started in 2005, the Campus had recently received Delegation Authority. When the Broome Library project started, the Campus was still in the process of setting up internal operating procedures. The Campus's current practice is to collect Hourly Labor Rate Worksheets from all subcontractors within the first 30 days of NTP. The Campus started following this practice beginning with the Santa Cruz Village Housing project, which started in 2006. KPMG has completed an audit of the Santa Cruz Village project. KPMG verified that the Labor Rate Worksheets were collected for all subcontractors in compliance with SUAM requirements.

SUBCONTRACTORS

Recommendation 2

We recommend that the campus reiterate to staff that they should obtain the expanded list of subcontractors from the design-builder at the earliest possible date and that they should receive revisions whenever additional subcontractors are added.

Campus Response

The Campus agrees that the Expanded Subcontractor List was not collected until late into the project.

The Campus's current practice is to require that Contractors submit an updated Expanded Subcontractor List each month with the Contractor's Payment Application. The Campus started this practice in early 2009. The Contractors understand that the Payment Applications would not be processed until the Campus receives the updated Expanded Subcontractor List each month.

CHANGE ORDER ADMINISTRATION**DOCUMENTATION****Recommendation 3**

We recommend that the campus reiterate procedures to staff and conduct training to ensure that change orders are supported by sufficient documentation in accordance with §37.00, Changes in the Work, of the *Contract General Conditions for Design-Build Projects*.

Campus Response

The Campus acknowledges that five change orders did not include complete cost information. It should be noted that these were the first five change orders processed for the contract. Although the documentation was not attached to the early change orders, all back-up documentation was reviewed and the change order request value negotiated by the Project Manager prior to approval of the Change Order. The Auditor expressed satisfaction regarding documentation attached to the Change Orders beginning with Change Order 6.

As noted in Response 1, the Campus was in the process of setting up internal operating procedures when this project started. Currently, the Campus requires full and complete documentation with each Change Order. As stated earlier, KPMG audited the Change Orders for the Santa Cruz Village project and found the documentation for every change order complete and properly documented.

LABOR RATES AND BURDEN**Recommendation 4**

We recommend that the campus conduct staff training to ensure that hourly and premium labor rates and the associated labor burden charged by trade subcontractors are appropriate and accurate in accordance with §37.00, Change in the Work, of the *Contract General Conditions for Design-Build Projects*.

Campus Response

The Campus will conduct additional training regarding calculating Labor Rates and Burden, as recommended. Currently, the Campus conducts yearly refresher training for all Project Managers regarding Campus standard operating procedures, including calculations of labor rates and burden.

We expect to have this completed by June 30th. As stated earlier, KPMG audited the Change Orders for the Santa Cruz Village project and found that the labor rates and burdens used for determining the change order values were accurate in all cases.

PROJECT COMPLETION AND CLOSEOUT

Recommendation 5

We recommend that the campus reiterate to staff that a field instruction and change order should be issued to the design-builder when the State Fire Marshal grants a temporary certificate of occupancy.

Campus Response

Prior to this audit, the Campus procedure was to issue a letter to the Contractor establishing the date of Substantial Completion. The Campus now issues a Field Instruction establishing the Substantial Completion Date and incorporate the Field Instruction into a Change Order.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 29, 2010

CHANNEL ISLANDS

CHICO

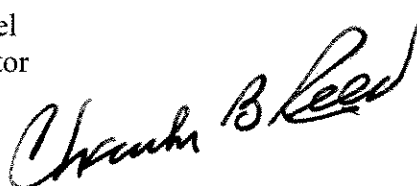
MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor


FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-26 on the
John Spoor Broome Library,
California State University, Channel Islands

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 29, 2010, I accept the response as submitted with the draft final report on the *John Spoor Broome Library*, California State University, Channel Islands.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS