

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
CHICO
STUDENT HOUSING EXPANSION

Audit Report 12-09
May 24, 2012

Members, Committee on Audit

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

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

BOT	Board of Trustees
CM	Construction Manager
CM at Risk	Construction Manager at Risk
CPDC	Capital Planning, Design and Construction
CRB	Certification Review Board
CSU	California State University
CSUC	California State University, Chico
EO	Executive Order
GMP	Guaranteed Maximum Price
Housing	Student Housing Expansion
LEED	Leadership in Energy and Environmental Design
OUA	Office of the University Auditor
PDC	Planning, Design and Construction
SUAM	State University Administrative Manual

EXECUTIVE SUMMARY

At its January 2011 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, Chico campus and the offices of the construction manager and selected subcontractors from January 30, 2012, through March 2, 2012, and audited the Student Housing Expansion project focusing on the construction management policies and procedures and 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, we found that change orders were not always properly approved, and the construction manager's administration of mark-ups needed improvement. These issues were repeat findings from the prior Student Services Center audit, which along with other 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 Student Housing Expansion project as of March 2, 2011, were sufficient to meet the overall audit objective stated in the "Purpose" section of this report.

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.

CAMPUS MANAGEMENT PLAN [7]

The campus capital project management plan, dated August 2008, did not include specific delegation of authority for approval of milestone or global settlements included in project change orders.

CHANGE ORDER ADMINISTRATION [8]

Change orders were not always properly approved. In addition, the construction manager and trade subcontractor applied excessive overhead and profit mark-ups that resulted in an overcharge of \$17,421. These findings are repeats from the prior Student Services Center audit. Further, labor rate overcharges and an erroneous labor burden by one trade subcontractor inflated labor costs by \$11,755.

PROJECT COMPLETION AND CLOSEOUT [11]

The campus did not require the construction manager to submit a final accounting of the guaranteed maximum price construction agreement.

INTRODUCTION

BACKGROUND

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

In November 2007, the campus executed a guaranteed maximum price (GMP) agreement with the construction manager (CM), Sundt Construction, Inc., for Phase I, design and demolition services, at a construction cost of \$441,952. It issued the Notice to Proceed on December 17, 2007. In April 2008, the campus executed two GMP agreements with the CM for Phases II and III, at a construction cost of \$69,025 and \$1,623,324, respectively; Notices to Proceed were issued on July 15, 2008. These agreements allowed the CM to begin the design of the pile foundation and the construction of underground gas, water, and sewage utilities surrounding the Housing project site. In August 2008, the campus executed another GMP agreement with the CM for Phase IV, main construction phase services, at a construction cost of \$47,185,525, then issued a Notice to Proceed on August 5, 2008. The State Fire Marshal granted a Certificate of Beneficial Occupancy on August 3, 2010, and the campus filed Notices of Completion for Phases I and II on January 21, 2009, and for Phases III and IV on November 19, 2010.

The Housing project consists of two buildings designed by AC Martin Partners: a five-story residence hall and residential dining complex and a two-story residential life program building. The Housing project provides 226 beds within the 113,200 gross-square-foot complex and a food service facility that will serve all on-campus student residents. The residential life program building includes recreation spaces, administrative offices, and meeting rooms. The project achieved a Leadership in Energy and Environmental Design (LEED) gold rating. LEED is a third-party certification program begun in 1999 by the United States Green Building Council and is a nationally accepted benchmark for the sustainable “green” design, construction, and operation of buildings.

The CSUC campus initially managed the Student Housing Expansion project, and it chose the Construction Manager at Risk (CM at Risk) with Guaranteed Maximum Price (GMP) delivery method. In this method, a construction management firm chosen by a competitive bidding process provides all or significant portions of design and construction administrative services and takes part in establishing the GMP. The CM at Risk acts as the general contractor during construction, assumes the risk of subcontracting the work, and guarantees completion of the project. The liability for the success in completing the project on time and in budget lies with the construction manager, and not with the university. Further, there is a potential for cost savings should the project be completed below the GMP. In June 2009, representatives from the campus, the architect, the CM, and the chancellor’s office Capital Planning, Design and Construction (CPDC) department met to discuss potential risks to successful project completion. The result of the meeting was a partnering agreement between the campus and CPDC with action items and approval authorities for each group. This allowed the mitigation of identified risks and other emerging issues that may have caused project delays and cost escalations.

Executive Order (EO) 672, *Delegation of Capital Outlay Management Authority and Responsibility*, dated July 25, 1997, delegates to campus presidents the authority to manage directly state and non-state

funded capital outlay projects. The chancellor's office issues this delegated authority to the campus subject to its compliance with the capital outlay certification procedure. To comply, the campus submits a request for Delegation of Capital Outlay Management Authority to the Certification Review Board (CRB) for review. Then the executive vice chancellor and chief financial officer in the chancellor's office must approve the request. The campus president is responsible for ensuring that he or she exercises delegated authority in compliance with applicable statutes, regulations, and policies of the BOT; the campus manages capital projects via a process consistent with the provisions of the State University Administrative Manual (SUAM); and the campus has in place appropriate internal controls and processes to ensure that responsibilities are carried out in a manner consistent with the campus capital outlay management plan submitted with the request for delegated authority.

The certification procedure required by EO 672 includes submission of a capital outlay management plan, which defines the campus organizational and operational structure and expenditure authority, and serves as the campus policies and procedures for the administration of construction activities. Updated plans are to be submitted when campus operational structure changes are made which impact the plan. Certification is continuous unless a CPDC post-project performance review determines that problems were caused by campus negligence, in which case the CRB may recommend that the campus be placed on probation. The CRB may ultimately recommend that certification be withdrawn if identified operational/management deficiencies are not remedied.

For those campuses that are not certified, the chancellor's office may execute a Memorandum of Delegation for a capital outlay project, which delegates administration, including construction management, to the campus. The CPDC construction management unit may also perform construction administration and management.

EO 666, *Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development*, dated March 7, 1997, delegates the authority to each campus president or designee to make all professional appointments relative to capital outlay projects and campus physical development. Further, the campus president or designee is responsible for ensuring compliance with all applicable statutes and regulations, BOT policies, and SUAM guidelines; and the use of systemwide standardized architectural, engineering, and other professional appointment contract forms.

The SUAM, in part, contains an overview of all CPDC policies and procedures associated with the capital outlay process. SUAM §9700 through §9843, *Construction Management for Public Works Contracts*, describe the requirements for preparing and administering public works contracts under the provisions of Public Contract Code §10700 *et seq.* SUAM §9200 through §9212, *Professional Services for Campus Development*, describe the requirements for developing and administering professional services agreements with service providers such as architects and engineers and for testing services and project-related studies.

The 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 Student Housing Expansion project.

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

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

- ▶ Change orders are appropriately approved, supported, accurately priced, and sufficiently tracked; and construction allowances and contingency balances are adequately administered and controlled.
- ▶ Project completion is adequately administered, including completion of pre-final/final inspections, punch list items, project closeout checklist, and Notice of Completion; preservation of project files, equipment manuals/warranties, and spare parts/materials; and resolution of any liquidated damages.

SCOPE AND METHODOLOGY

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

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

We focused primarily on the operational and administrative controls in effect for the Student Housing Expansion project with an emphasis on compliance with the *CSU Construction Management Procedures Manual*, SUAM policies and procedures associated with the capital outlay process, the campus capital outlay management plan, and construction contract general conditions. We evaluated the effectiveness of construction management policies and procedures and adequacy of internal controls and processes, and sought opportunities for improvement to further the success of CSU's capital outlay program.

Specifically, we reviewed and tested:

- ▶ Delegation of construction management authority.
- ▶ Review and approval of project design, budget, and funding.
- ▶ Professional services agreements and any extra services changes.
- ▶ Administration of the bid and award process.
- ▶ Contract execution and required contract bonds and insurance.
- ▶ Subcontractors and subcontractor substitutions.
- ▶ Contract and service agreement payment processing.
- ▶ Procurement of major equipment and materials.
- ▶ Performance of required inspections and tests.
- ▶ Review, approval, and tracking of change orders.
- ▶ Direct labor and associated burden.
- ▶ Construction management and overall project cost accounting and reporting.
- ▶ Construction allowances and contingency balances.
- ▶ Administration of the project closeout process and resolution of any liquidated damages.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS AND MANAGEMENT RESPONSES

CAMPUS MANAGEMENT PLAN

The campus capital project management plan, dated August 2008, did not include specific delegation of authority for approval of milestone or global settlements included in project change orders.

Specifically, we found that the vice president of business and finance approved a \$550,857 change order from the construction manager on April 15, 2009, that included milestone settlement language related to schedule impacts caused by the campus prior to April 1, 2009. However, the campus capital project management plan did not authorize the vice president to approve a settlement of this type.

Executive Order (EO) 672, *Delegation of Capital Outlay Management Authority and Responsibility*, dated July 25, 1997, states, in part, that the campus shall carry out all construction management activities and complete the project within the approved scope, schedule, and budget.

The chancellor's office Capital Planning, Design and Construction (CPDC) chief of construction management stated his belief that the milestone or global settlements were change orders that were executed in accordance with the signature authority granted by the campus president via the campus capital project management plan and that no additional review was required or needed. He further stated that the capital project management plan did not require specific authorization for the campus vice president to sign milestone or global change orders.

Failure to provide specific delegation of authority for approval of milestone or global settlements increases the risk of misunderstandings and miscommunication regarding campus operational and expenditure authority.

Recommendation 1

We recommend that the chancellor's office CPDC department:

- a. Consult with the Office of General Counsel to determine whether the campus capital project management plan provides adequate delegation of authority for approval of milestone or global settlement change orders.
- b. Revise the State University Administrative Manual (SUAM), the Project Administration Reference Manual, and/or other policy or procedure documents, if necessary, to clearly communicate the delegation of authority for approval of all settlement change orders.

Management Response

- a. CPDC has consulted with the Office of General Counsel, and we both agree that the delegation of authority to the president from the chancellor transferring direct management of the project includes the authority for the campus to approve milestone or global settlement change orders.

Policy documents direct campuses to actively work to resolve disputes and mitigate risk, and while these are known as “milestone” or “global settlement” change orders, they are still “change orders.” The campus management plans define the level of signature authority for the various positions on campus.

- b. The policy and procedures from the SUAM and the Project Administration Reference Manual were reviewed to ensure the delegation of authority for change orders is clear. In addition to the procedure review, we confirmed that each of the four samples of global and/or milestone settlement change orders that are provided in the SUAM include a clear delineation of the campus official’s signature required based on the value of the change order.

We will modify SUAM §9820.03 and the procedure manual to state that any deviations from the settlement language included in our sample change order templates needs to be reviewed by CPDC, and that CPDC will consult with the Office of the General Counsel on the proposed language change as needed.

CHANGE ORDER ADMINISTRATION

APPROVAL

Change orders were not always properly approved.

Specifically, we found that three change orders were not approved by the vice president of business and finance as required by the campus delegation of authority. This is a repeat finding from the prior Student Services Center audit.

The California State University, Chico (CSUC) *Delegation of Capital Outlay Management Authority*, dated August 2008, states that approval by the vice president of business and finance is required for change documents exceeding \$25,000.

The director of planning, design, and construction (PDC) stated that the vice president’s authorization was not obtained due to the chancellor’s office CPDC department’s oversight of the project and CPDC staff’s approval of all project change orders after June 12, 2009.

Inadequate approval of change orders increases the risk that errors and irregularities will not be detected in a timely manner and may result in unwarranted changes and excess charges and expenses.

Recommendation 2

We recommend that the campus:

- a. Reiterate to staff that change orders must be approved according to authorized dollar thresholds.

- b. Implement controls to periodically review change orders for proper approvals during and at the completion of projects.

Campus Response

We concur with the recommendation.

- a. The authorized dollar thresholds for change order approval will be reiterated to staff.
- b. Controls will be implemented to periodically review change orders for proper approvals during and at the completion of projects.

Completion date: July 31, 2012

LABOR RATES AND BURDEN

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

We reviewed hourly labor rates and the associated labor burden charged by two trade subcontractors for change order work, and we found that:

- ▶ One trade subcontractor charged an inflated labor rate by calculating labor burden rates on total hourly wage rates that included fringe benefits not paid to the employee. This increased labor costs by \$10,246.
- ▶ A second trade subcontractor charged an inflated worker's compensation rate and included an erroneous labor burden component. This increased labor costs by \$1,509.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (1) states that the construction manager (CM) and trade contractors shall submit a fully detailed breakdown of the cost of every labor classification to be utilized on a proposed change on the hourly labor rate worksheet. The unit cost of labor shall be an accurate accounting of actual costs being paid.

The PDC director stated that the construction management firm should have reviewed the labor rate and labor burden components before submitting the change orders to the campus.

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

Recommendation 3

We recommend that the campus pursue recovery of the \$11,755 in inflated labor costs charged by these trade subcontractors. The results of this recovery should be reported to the chancellor's office CPDC department.

Campus Response

We concur with the recommendation. The campus will pursue recovery of the \$11,755 in inflated labor burden costs resulting from two trade subcontractors. Results of this recovery effort will be reported back to the chancellor's office CPDC department.

Completion date: August 31, 2012

MARK-UPS

Administration of construction manager and trade subcontractor mark-ups needed improvement.

We reviewed change orders submitted by the construction manager and one trade subcontractor and found an overcharge of \$17,421. Specifically, the construction manager's calculation of its 10 percent profit and overhead mark-up inappropriately included trade subcontractor profit and overhead. This is a repeat finding from the prior Student Services Center audit. In addition, a trade subcontractor erroneously applied a 15 percent mark-up instead of a 10 percent mark-up to work performed with costs in excess of \$50,000.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (6) states, in part, that when changed/added work is performed by a trade contractor, the construction manager may add no more than a 10 percent mark-up to the trade subcontractor's total direct cost estimate (excluding the trade subcontractors' mark-up). The construction manager's 10 percent mark-up in this case is for profit, overhead, insurance, taxes, indirect supervision, bonds, and warranty.

The *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects* §6.01.b (6) states that the contractor may add up to a 15 percent mark-up to its direct cost when self-performing the changed work on the first \$50,000, and 10 percent thereafter on the balance beyond \$50,000.

The PDC director stated that the failure to re-calculate the construction manager's profit and overhead mark-up was due to oversight by the project manager. She further stated that the construction management firm should have reviewed the trade subcontractor's overhead and profit mark-up calculation before submitting the change orders to the campus.

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

Recommendation 4

We recommend that the campus pursue recovery of the \$17,421 in inflated mark-up costs charged by the construction manager and trade subcontractor and determine, as appropriate, if other change order work performed by the subcontractor was cost-inflated in a similar manner. The results of this recovery should be reported to the chancellor's office CPDC department.

Campus Response

We concur with the recommendation. The campus will pursue recovery of the \$17,421 in inflated mark-up costs resulting from the construction manager and trade subcontractor. The campus will also determine, as appropriate, if other change order work performed by the construction manager and subcontractor were cost-inflated in a similar manner. Additional inflated mark-up will be included in the recovery efforts. Results of this recovery effort will be reported back to the chancellor's office CPDC department.

Completion date: August 31, 2012

PROJECT COMPLETION AND CLOSEOUT

The campus did not require the construction manager to submit a final accounting of the guaranteed maximum price (GMP) construction agreement.

Specifically, we found that the construction manager did not provide sufficient documentation demonstrating that the total cost of the project equaled or exceeded the final GMP construction agreement amount of \$51,956,216. The documentation should include, but not be limited to, all actual subcontractor costs, direct material and labor provided by the construction manager, and a reconciliation of contractual fees paid by the campus.

EO 672, *Delegation of Capital Outlay Management Authority and Responsibility*, dated July 25, 1997, states, in part, that the campus shall carry out all construction management activities and complete the project within the approved scope, schedule, and budget.

The PDC director stated that the project manager requested a final reconciliation of the GMP from the construction manager on several occasions, but the construction manager never provided the requested documentation.

Failure to require the construction manager to submit a final accounting of actual project costs increases the risk that the campus' payments would exceed the total GMP construction amount and that any errors and irregularities would not be detected.

Recommendation 5

We recommend that the campus, in conjunction with CPDC, require and receive a final accounting of the GMP construction agreement from the construction manager and perform a verification of the costs. In the event the total actual cost is less than \$51,956,216, the campus should notify CPDC and request that the difference be returned to the campus.

Campus Response

We concur with the recommendation. The campus has requested and received a final accounting of the GMP construction costs from Sundt. We will work with CPDC to perform a verification of the costs. In the event the total actual cost is less than \$51,956,216, we will request the difference be returned to the campus.

Completion date: August 31, 2012

APPENDIX A: PERSONNEL CONTACTED

Name

Title

Office of the Chancellor

Benjamin F. Quillian

Executive Vice Chancellor and Chief Financial Officer

Lori Erdman

Chief of Staff, Business and Finance

Elvyra San Juan

Assistant Vice Chancellor,

Capital Planning, Design and Construction

James Sowerbrower

Chief of Construction Management

California State University, Chico

Paul J. Zingg

President

Lorraine Hoffman

Vice President for Business and Finance

Jeni Kitchell

Manager of Internal Audits

Lynda Miracle

Director of Planning, Design and Construction



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Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

562-951-4600
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bquillian@calstate.edu

MEMORANDUM

DATE: July 13, 2012

TO: Larry Mandel
University Auditor

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

SUBJECT: Audit Report
Student Housing Expansion
California State University, Chico

**RECEIVED
UNIVERSITY AUDITOR**

JUL 13 2012

THE CALIFORNIA STATE
UNIVERSITY

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

BFQ:esj

Attachment

cc: Ms. Elvyra F. San Juan
Mr. Larry Piper
Mr. Thomas M. Kennedy
Mr. James Sowerbrower

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
CHICO
STUDENT HOUSING EXPANSION

Audit Report 12-09

CAMPUS MANGEMENT PLAN

Recommendation 1

We recommend that the chancellor's office CPDC department:

- a. Consult with the Office of General Counsel to determine whether the campus capital project management plan provides adequate delegation of authority for approval of milestone or global settlement change orders.
- b. Revise the State University Administrative Manual (SUAM), the Project Administration Reference Manual, and/or other policy or procedure documents, if necessary, to clearly communicate the delegation of authority for approval of all settlement change orders.

Management Response

- a. CPDC has consulted with the Office of General Counsel and we both agree that the delegation of authority to the president from the chancellor transferring direct management of the project includes the authority for the campus to approve milestone or global settlement change orders. Policy documents direct campuses to actively work to resolve disputes and mitigate risk, and while these are known as "milestone" or "global settlement" change orders, they are still "change orders." The campus management plans define the level of signature authority for the various positions on campus.
- b. The policy and procedures from the SUAM and the Project Administration Reference Manual were reviewed to ensure the delegation of authority for change orders is clear. In addition to the procedure review, we confirmed that each of the four samples of global and/or milestone settlement change orders that are provided in the SUAM include a clear delineation of the campus official's signature required based on the value of the change order.

We will modify §SUAM 9820.03 and the procedure manual to state that any deviations from the settlement language included in our sample change order templates needs to be reviewed by CPDC, and that CPDC will consult with general counsel on the proposed language change as needed.

California State University, Chico
Chico, California 95929-0025



Office of the Vice President for Business and Finance
530-898-6231
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June 6, 2012

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JUN 11 2012

THE CALIFORNIA STATE
UNIVERSITY

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



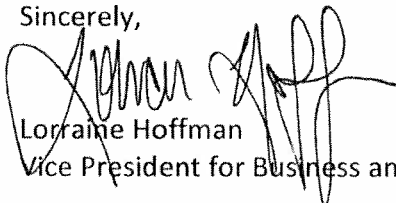
Subject: Student Housing Expansion (Sutter Hall), Audit Report 12-09
California State University, Chico

Dear Mr. Mandel:

We have reviewed the Office of the University Auditor Report 12-09, Student Housing at California State University, Chico. Please find enclosed our response to the audit recommendations 2-5. Upon acceptance of our response, the campus will submit documentation evidencing implementation of the recommendations.

If you have any questions or require additional information, please contact Jeni Kitchell at 530-898-8910 or jkitchell@csuchico.edu. Thank you.

Sincerely,


Lorraine Hoffman
Vice President for Business and Finance

Enclosure

cc: Paul Zingg, President, CSU Chico
Aaron Bolin, Office of the University Auditor
Lynda Miracle, Director PDC, CSU Chico
Jeni Kitchell, CSU Chico

CONSTRUCTION
CALIFORNIA STATE UNIVERSITY,
CHICO

STUDENT HOUSING EXPANSION

Audit Report 12-09

CHANGE ORDER ADMINISTRATION

APPROVAL

Recommendation 2

We recommend that the campus:

- a. Reiterate to staff that change orders must be approved according to authorized dollar thresholds.
- b. Implement controls to periodically review change orders for proper approvals during and at the completion of projects.

Campus Response

We concur with the recommendation.

- a. The authorized dollar thresholds for change order approval will be reiterated to staff.
- b. Controls will be implemented to periodically review change orders for proper approvals during and at the completion of projects.

Completion Date: July 31, 2012

LABOR RATES AND BURDEN

Recommendation 3

We recommend that the campus pursue recovery of the \$11,755 in inflated labor costs charged by these trade subcontractors. The results of this recovery should be reported to the chancellor's office CPDC department.

Campus Response

We concur with the recommendation. The campus will pursue recovery of the \$11,755 in inflated labor burden costs resulting from two trade subcontractors. Results of this recovery effort will be reported back to the Chancellor's Office, CPDC department.

Completion Date: August 31, 2012

MARK-UPS

Recommendation 4

We recommend that the campus pursue recovery of the \$17,421 in inflated mark-up costs charged by the construction manager and trade subcontractor and determine, as appropriate, if other change order work performed by the subcontractor was cost-inflated in a similar manner. The results of this recovery should be reported to the chancellor's office CPDC department.

Campus Response

We concur with the recommendation. The campus will pursue recovery of the \$17,421 in inflated mark-up costs resulting from the construction manager and trade subcontractor. The campus will also determine, as appropriate, if other change order work performed by the construction manager and subcontractor were cost-inflated in a similar manner. Additional inflated mark-up will be included in the recovery efforts. Results of this recovery effort will be reported back to the Chancellor's Office, CPDC department.

Completion Date: August 31, 2012

PROJECT COMPLETION AND CLOSEOUT

Recommendation 5

We recommend that the campus, in conjunction with CPDC, require and receive a final accounting of the GMP construction agreement from the construction manager and perform a verification of the costs. In the event the total actual cost is less than \$51,956,216, the campus should notify CPDC and request that the difference be returned to the campus.

Campus Response

We concur with the recommendation. The campus has requested, and received a final accounting of the GMP construction costs from Sundt. We will work with CPDC to perform a verification of the costs. In the event the total actual cost is less than \$51,956,216, we will request the difference be returned to the campus.

Completion Date: August 31, 2012

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

July 19, 2012

CHICO

MEMORANDUM

DOMINGUEZ HILLS

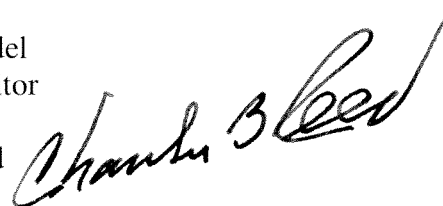
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 12-09 on the *Student Housing Expansion*,
California State University, Chico

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 19, 2012, I accept the response as submitted with the draft final report on the *Student Housing Expansion*, California State University, Chico.

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS