



Secretary of State Audit Report

Oregon University System: Reser Stadium Construction At Oregon State University

Summary

PURPOSE

The purpose of this audit was to determine if, for the Oregon State University Reser Stadium construction project, costs were in accordance with contract terms and if payroll, equipment rented from the contractor, and travel costs were reasonable. The purpose was also to determine if the University had adequate processes in place for reviewing and approving contract amendments and change orders.

BACKGROUND

This audit was conducted at the request of the Oregon University System. The Oregon University System received legislative approval in 2003 for \$110 million, and an additional \$4 million in 2005 to expand and renovate Reser Stadium at Oregon State University in Corvallis. The project included the construction of a 1,000-car parking garage. The project was funded through \$70 million in Article XI-F (1) bonds and \$44 million in other revenues, including private donations.

RESULTS IN BRIEF

We found that for the Reser Stadium construction project, costs reviewed were generally in accordance with contract terms, and payroll, equipment rented from the contractor, and travel costs generally were reasonable.

We did find instances in which payroll and equipment rental costs did not comply with contract terms, resulting in an overpayment to the contractor. We also identified underpayments made by the contractor to two union carpenters. However, the total incorrect payments identified were less than one-quarter of 1 percent of the total payments reviewed.

The small percentage of incorrect payments found in our audit may be attributable, at least in part, to efforts made by Oregon State University to apply lessons learned from previous Oregon University System construction projects to the Reser Stadium construction project.

We also found that the University had adequate processes in place for reviewing and approving contract amendments and change orders.

RECOMMENDATIONS

We recommend Oregon State University develop and implement policies and procedures, as detailed in our report, to further improve their payment review process.

We also recommend Oregon State University do the following:

- Seek reimbursement from the contractor for approximately \$20,000 in overcharges relating to equipment rentals and payroll charges, and take possession of the equipment for which rental payments exceeded the acquisition price.
- Request the contractor review pay rates for all carpenters employed on the project to identify carpenters paid less than the Bureau of Labor and Industries (BOLI) prevailing wage rates, and pay carpenters for wages owed. After payment is made, the contractor should seek reimbursement from Oregon State University.

AGENCY'S RESPONSE

The OUS generally agrees with the recommendations and is pleased that the audit recognizes the excellent contract management practices in place at Oregon State University.

Introduction/Background

This audit was conducted at the request of the Oregon University System.

The Oregon University System received legislative approval in 2003 for \$110 million, and an additional \$4 million in 2005 to expand and renovate Reser Stadium at Oregon State University in Corvallis. The stadium expansion will increase seating capacity to 43,000. The project also included the construction of a 1,000-car parking garage.

The project was funded through \$70 million in Article XI-F (1) bonds and \$44 million in other revenues, including private donations. The University intends to use future game revenues and privately raised funds to pay off the bond debt. This project was the first of three phases planned for Reser Stadium.

The original Construction Manager/General Contractor (CM/GC) contract between Oregon State University and the contractor was signed in October 2003, and as of September 2005 was at \$78.9 million. The role of the contractor was to provide professional management services for the construction project by assuming the responsibility for competitively bidding and awarding construction trade contracts, and managing the project.

Audit Results

We reviewed five payments to the contractor totaling approximately \$11.2 million, all contract amendments, and a selection of contract change orders. We also reviewed payments for a selection of payroll and travel costs, as well as all payments made for equipment rented from the contractor.

We found that for the Reser Stadium construction project, costs reviewed were generally in accordance with contract terms, and payroll, equipment rented from the contractor, and travel costs generally were reasonable.

We did find several instances totaling approximately \$8,000 in which the University paid for more labor hours than reported as worked, and for more than the maximum billable labor hours. We also identified two union carpenters who were paid, by the contractor, less than the prevailing wage rate as established by the Bureau of Labor and Industries (BOLI). We further identified approximately \$12,000 in payments made on equipment rented from the contractor, which exceeded the acquisition cost of the equipment. However, the total incorrect payments identified were less than one-quarter of 1 percent of the total payments reviewed.

The small percentage of incorrect payments found in our audit may be attributable, at least in part, to efforts made by the University to apply lessons learned from previous Oregon University System construction projects to the Reser Stadium project.

We also found that the University had adequate processes in place for reviewing and approving contract amendments and change orders.

More Labor Hours Paid Than Documented

The Construction Manager/General Contractor (CM/GC) contract between the University and the contractor states that the cost of the work to be reimbursed shall include only those items necessary and reasonably incurred by the contractor and must be directly related to the project, including labor costs.

We attempted to review supporting payroll documentation

for a selection of craft laborers hired by the contractor. Although daily timesheets were not filled out and signed by the craft laborers, we were able to obtain weekly time reports submitted by the project superintendent. We compared the weekly time reports to hours billed for a selection of craft laborers, and found no exceptions.

We also attempted to review supporting payroll documentation for the contractor's project staff. University officials told us daily timesheets were not required for project staff because most were salaried and assigned only to this project. Because daily timesheets were not available for most project staff, we were able to compare daily timesheets to hours billed for only two of the 13 project staff selected for review. One of the selected individuals was a consultant hired by the contractor, and the other was paid an hourly wage. For these two individuals, we found the hours billed to the University were greater than the hours reported on the daily timesheets, resulting in an overpayment to the contractor of approximately \$4,100 for the two individuals reviewed.

Labor Hours Paid in Excess of Maximum Billable Hours

As established by the CM/GC contract, wage rates for the contractor's salaried staff were based on a maximum of 40 billable hours per week.

We reviewed payroll payments for all of the contractor's salaried staff and found the University paid for 49 hours more than the 40 billable hours per week for three individuals. The total overpayment for hours billed in excess of 40 hours per week was approximately \$3,850.

Correct Wage Rates Not Paid in Some Instances

Oregon University System General Conditions for Public Improvement Contracts requires workers employed on a public project be paid no less than the prevailing wage rate established by the Bureau of Labor and Industries (BOLI).

We compared hourly wages to BOLI rates for nine of the 18 union laborers employed by the contractor, and found that two union carpenters were paid by the contractor less than the BOLI prevailing rate of wage. The two carpenters who received less than the prevailing wage were underpaid approximately \$1,500 for the period of our review.

The hourly wage rate requested by the contractor, and paid by the University, was based on the individual rates stated on the Union Dispatch Sheets provided by the carpenter's local union. The contractor relied upon the union to provide correct wage rates for union craft laborers and submitted payroll reports containing incorrect wage rates.

Equipment Rental Costs Exceeded Acquisition Costs

The CM/GC contract states that rates and quantities of equipment rented shall not exceed acquisition costs. However, we found 21 of 40 pieces of equipment rented from the contractor exceeded acquisition costs by a total of approximately \$12,150.¹

¹ Acquisition price included the original purchase price, less a 50 percent deduction for computer equipment purchased prior to 2004, and a 10 percent additional fee for all equipment.

Payment Review Process Could Be Strengthened

While the University has policies and procedures for determining the appropriateness of contractor payments, opportunities exist to further improve procedures related to payments for payroll and equipment rented from the contractor.

With regard to the review of payroll payments, we found daily timesheets were not required for employees hired by the contractor. When daily timesheets were available, they were not submitted and reviewed to determine if hours billed agreed to hours worked.

We also found the contractor relied upon the union to provide correct wage rates for union craft laborers. Neither the contractor nor the University verified the wage rates complied with prevailing wage rates as established by BOLI.

We further found that the University did not regularly compare the payments made for equipment rented from the contractor to the acquisition price of each piece of equipment to determine whether full acquisition price had been reached. University officials told us that their normal practice is to perform the comparisons and settle with the contractor at the end of a project.

Agency Accomplishments

The small percentage of incorrect payments found in our audit may be attributable, at least in part, to efforts made by the University to apply lessons learned from previous Oregon University System construction projects to the Reser Stadium construction project.

During our audit we noted the payment review process conducted by University project staff was thorough and detailed, with the exceptions previously noted in this report. In fact, we also noted

instances in which the University denied payments for non-billable items submitted by the contractor for payment. Further, contract amendments and change orders appeared to have been thoroughly reviewed by both the contractor and University project staff prior to approval.

In addition, University officials told us they took the following actions:

- Consulted with the project management team from another major Oregon University System construction project, as well as reviewed prior audit findings from previous Oregon University System construction projects.
- Provided University project staff with training on controlling construction costs.
- Clarified for the contractor, prior to approval, items that could be included in change orders and those that could not under the terms of the contract.
- Identified potential project issues and ways to avoid them, prior to the start of the project.
- Held extensive negotiations with the contractor, which resulted in detailed contract terms that helped to control costs.
- Agreed to and documented contractor salaries in a contract amendment.
- Established clear expectations with the contractor early on by rejecting non-billable payment requests and continued to work closely with the contractor throughout the project.

Recommendations

We recommend Oregon State University develop and implement policies and procedures to further improve their payment review process by requiring the following:

- All project employees hired by the contractor fill out and submit timesheets. We also recommend periodic and regular review of timesheets to ensure the number of hours billed agrees to the number of hours worked.
- Periodic review of certified payroll reports submitted by the contractor to verify that wage rates paid are no less than the prevailing wage rate established by the Bureau of Labor and Industries (BOLI).
- Regular review of payments made for equipment rented from the contractor to ensure payments have not exceeded the total equipment acquisition price.

We also recommend Oregon State University:

- Seek reimbursement from the contractor for approximately \$20,000 in overcharges relating to equipment rentals and payroll charges, and take possession of equipment for which payments exceeded acquisition cost.
- Request the contractor review pay rates for all carpenters employed on the project to identify carpenters paid less than the Bureau of Labor and Industries (BOLI) prevailing wage rates, and pay carpenters for wages owed. After payment is made, the contractor should seek reimbursement from Oregon State University.

Agency's Response:

The OUS agrees with the recommendations to further improve payment and review processes and is pleased that the audit recognizes the excellent contract management practices in place at Oregon State University. Although BOLI regulations do not require agencies to verify billed rates, the OUS will request that contractors perform periodic verifications.

The contractor has reimbursed Oregon State University as recommended in the audit through adjustments in billing requests in November and December 2005.

The contractor has reviewed and recalculated wages for the carpenters subject to prevailing wage rates and issued checks in December 2005 to two carpenters for total adjusted pay of \$2,084.

The University's normal practice is to settle up with the contractor on equipment rentals near the end of a project. The equipment settle up was completed by December 2005.

Objectives, Scope and Methodology

The purpose of this audit was to determine if, for the Oregon State University Reser Stadium construction project, costs were in accordance with contract terms and if payroll, equipment rented from the contractor, and travel costs were reasonable. The purpose was also to determine if the University had adequate processes in place for reviewing and approving contract amendments and change orders.

The scope of our audit included a review of five of 18 payments to the contractor, all contract amendments, and three of 25 contract change orders. We also reviewed a selection of payments by the contractor to five of 37 subcontractors. Based on the results of our review, we determined it was not necessary to expand our scope to include more payments.

We reviewed all supporting documentation provided by the contractor for the five selected payments for accuracy and completeness. We also reviewed supporting documentation for additional payroll and travel payments to determine if they were made in accordance with contract terms. We reviewed the payments

for all equipment rented from the contractor to determine if costs met or exceeded the original acquisition price.

We compared copies of checks from the University to the contractor and from the contractor to its subcontractors, to further ensure accuracy of payments. We also reviewed the amount of time between when the applications for payment were submitted and payment was made for compliance with contract terms.

We reviewed contract amendments and change orders for calculation accuracy and for proper reviews and approvals.

We reviewed the Oregon University System contracting policies and procedures, relevant *Oregon Revised Statutes* and Administrative Rules, the Construction Manager/General Contractor (CM/GC) contract, contract amendments, and contract change orders.

We interviewed University and contractor personnel to gain an understanding of contracting and payment approval processes.

We conducted our fieldwork between July 2005 and October 2005. We conducted our work according to generally accepted government auditing standards.



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The courtesies and cooperation extended by the officials and staff of the Oregon University System were commendable and much appreciated.

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