CONSTRUCTION

CALIFORNIA STATE UNIVERSITY,
FULLERTON

STUDENT HOUSING, PHASES 3 AND 4

Audit Report 12-10
February 6, 2013

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
APPENDICES

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ABBREVIATIONS

BOT  Board of Trustees
CPDC  Capital Planning, Design and Construction
CRB  Certification Review Board
CSU  California State University
CSUF  California State University, Fullerton
EO  Executive Order
Housing  Student Housing, Phases 3 and 4
ICSUAM  Integrated California State University Administrative Manual
LEED  Leadership in Energy and Environmental Design
OUA  Office of the University Auditor
EXECUTIVE SUMMARY

At its January 2012 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, Fullerton campus and the offices of the design-builder and selected subcontractors from September 24, 2012, through October 31, 2012, and audited the Student Housing, Phases 3 and 4 (Housing) 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 one reportable weakness that is described in the executive summary and body of this report. In our opinion, 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 found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

CONSTRUCTION MANAGEMENT AND ACCOUNTING [6]

The campus had not developed a procedure to ensure that group II equipment was properly accounted for and identified.
INTRODUCTION

BACKGROUND

In November 2007, the Board of Trustees (BOT) approved an amendment to the non-state capital outlay program that included a proposed student-housing complex for California State University, Fullerton (CSUF). In September 2008, the BOT approved schematic plans for the CSUF Student Housing, Phases 3 and 4 (Housing) project at a cost of $142,779,000, with funding from systemwide revenue bonds, to be paid from student housing revenues.

In March 2008, the campus solicited project proposals and selected PCL Construction Services, Inc., as the design-builder. The campus executed a design and construction agreement with PCL Construction Services, Inc., on July 21, 2008, at a cost of $118,335,000. The Notice to Proceed was also issued on July 21, 2008. The campus took beneficial occupancy on May 1, 2011, and filed a Notice of Completion on July 1, 2011.

The Housing project, designed by Steinberg Architects, is located at the north end of the campus and includes five dorm buildings and a single-story dining hall building. The dorm buildings provide housing for more than 1,000 students and include laundry and community rooms on every level. The project was awarded a Platinum certification from the United States Green Building Council’s Leadership in Energy and Environmental Design (LEED) program, meaning it meets the highest standards for green building and performance measures in the country. It is one of the first buildings in California to be awarded a Platinum LEED certification.

The CSUF campus managed the Housing project, and it chose the Design-Build delivery method. In this method, the design and construction aspects are contracted with a single design-builder who has full responsibility for finalizing and implementing a design that meets or exceeds California State University’s (CSU) performance expectations. The design-build entity is responsible for the adequacy of design and any construction defects, which allows the CSU to avoid these types of claims and limits errors and omissions change orders. Further, the design-build approach shortens project completion by overlapping the design and construction project phases. This approach also minimizes the university’s 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 Integrated California State University Administrative Manual (ICSUAM); and the campus has in place appropriate
internal controls and processes to ensure that responsibilities are carried out in a manner consistent with the campus capital outlay management plan submitted with the request for delegated authority.

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

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

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

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

The 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 Housing project.

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

- Delegated authority to manage capital outlay projects exists, and the campus capital outlay management plan is current for campus-managed projects.

- Project development is in accordance with statutory and CSU policy requirements, including required BOT and CPDC approvals.

- Administration and management of the project provide effective internal controls and processes consistent with the campus capital outlay management plan and the ICSUAM.

- Professional appointments are in accordance with statutory requirements, BOT policy, and the ICSUAM; and systemwide standardized professional appointment contract forms are used, approved by the Office of General Counsel, and fully executed prior to performance of work.

- Extra services are appropriate, authorized, and separately tracked; and an evaluation is performed for each professional service provided.

- The bidding process is rigidly controlled, performed in accordance with statutory requirements and the ICSUAM, and incorporates the contract documents maintained on the CPDC website.

- Contract documents are complete, routed to the Office of General Counsel as appropriate, and timely executed; required contract bonds and insurance are received; and a Notice to Proceed is issued.

- Subcontractors are adequately monitored, and requests for subcontractor substitutions are handled in accordance with statutory requirements and the ICSUAM.

- Operational and administrative controls ensure maintenance of financial accountability and completion of the project within the approved scope, schedule, and budget.

- Contract and service agreement payments are adequately supported, appropriately approved, and timely paid; and retention is handled in accordance with statutory requirements and the ICSUAM.

- Group II equipment is properly managed and accounted for, purchased materials meet specifications required by construction documents and drawings, and all required inspections and tests are properly performed in a timely manner 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 Housing project with an emphasis on compliance with the CSU Construction Management Procedures Manual, ICSUAM policies and procedures associated with the capital outlay process, the campus capital outlay management plan, and construction contract general conditions. We evaluated the effectiveness of construction management policies and procedures and adequacy of internal controls and processes, and sought opportunities for improvement to further the success of CSU’s capital outlay program.

Specifically, we reviewed and tested:

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

CONSTRUCTION MANAGEMENT AND ACCOUNTING

The campus had not developed a procedure to ensure that group II equipment was properly accounted for and identified.

Specifically, we found that items considered high risk, such as flat-panel televisions, were not tagged with a unique identification number.

California State University, Fullerton Fixed Assets Policy states that fixed assets valued at or above $5,000 and/or categorized as high-risk are identified as university property and accounted for every three years.

Integrated California State University Administrative Manual §3151.04, Equipment, effective January 1, 2011, states that campuses must establish a threshold for tracking of equipment valued under $5,000 based on an analysis of cost versus benefit and risk of misuse or misappropriation. Equipment deemed to be trackable should be tagged and recorded in the campus property inventory records but not included in the campus’ GAAP financial statements.

The university controller stated that a procedure for tagging fixed assets was in place but the items in question were not tagged due to oversight.

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

Recommendation 1

We recommend that the campus develop a procedure to ensure that group II equipment is properly accounted for and identified.

Campus Response

We concur. A procedure to ensure that group II equipment is properly accounted for and identified will be developed by April 30, 2013.
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<tr>
<th>Name</th>
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<tr>
<td><strong>Office of the Chancellor</strong></td>
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<tr>
<td>Elvyra San Juan</td>
<td>Assistant Vice Chancellor, Capital Planning, Design and Construction</td>
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<td>California State University, Fullerton</td>
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<tr>
<td>Mildred Garcia</td>
<td>President</td>
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<tr>
<td>William Barrett</td>
<td>Interim Vice President for Administration and Finance/ Chief Financial Officer (At time of review)</td>
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<tr>
<td>Jay Bond</td>
<td>Associate Vice President for Facilities Planning and Management</td>
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<tr>
<td>Beverly Burelli</td>
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<td>Stephen Chamberlain</td>
<td>Senior Project Manager</td>
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<td>Linda Dominguez</td>
<td>Assistant Director for Administration</td>
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<td>Stephen Garcia</td>
<td>Interim Vice President for Administration and Finance/ Chief Financial Officer (Currently)</td>
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<tr>
<td>Danny Miranda</td>
<td>Manager Logistical Services</td>
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<td>Steven Yim</td>
<td>University Controller</td>
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February 14, 2013

Larry Mandel, University Auditor  
Office of the University Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802-4210

SUBJECT: Campus Responses to Recommendations of Construction Audit, Report 12-10

Dear Mr. Mandel:

Please find enclosed California State University, Fullerton’s official response to the one (1) recommendation contained in Construction Audit, Report 12-10.

We would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying areas where our procedures or internal controls could be strengthened. The campus is committed to addressing the issues identified in the audit report.

If you have any questions or require additional information, please contact Steven Yim, Controller, at (657) 278-4075 or syim@fullerton.edu.

Sincerely,

[Signature]

Stephanie Garcia  
Interim Vice President for Administration & Finance/Chief Financial Officer

Attachments

cc: Dr. Mildred García, President  
Steven Yim, Controller
CONSTRUCTION

CALIFORNIA STATE UNIVERSITY,
FULLERTON

STUDENT HOUSING, PHASES 3 AND 4

Audit Report 12-10

CONSTRUCTION MANAGEMENT AND ACCOUNTING

Recommendation 1

We recommend that the campus develop a procedure to ensure that group II equipment is properly accounted for and identified.

Campus Response

We concur. A procedure to ensure that group II equipment is properly accounted for and identified will be developed by April 30, 2013.
February 28, 2013

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 12-10 on Student Housing, Phases 3 and 4, California State University, Fullerton

In response to your memorandum of February 28, 2013, I accept the response as submitted with the draft final report on the Student Housing, Phases 3 and 4, construction project at California State University, Fullerton.

TPW/amd