April 7, 2015

Dr. Elliot Hirshman, President
San Diego State University
5500 Campanile Drive
San Diego, CA 92182

Dear Dr. Hirshman:

Subject: Audit Report 14-13, Aztec Center Student Union, San Diego State University

We have completed an audit of the Aztec Center Student Union construction project as part of our 2014 Audit Plan, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

There were no reportable observations revealed during the review. The report has been posted to the Office of Audit and Advisory Services’ website.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor
CONSTRUCTION

San Diego State University

AZTEC CENTER STUDENT UNION

Audit Report 14-13
April 7, 2015
EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of construction management policies and procedures related to the fiscal, operational, and administrative controls over construction activities, determine the adequacy of internal controls and processes, identify cost recovery opportunities, and ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect for the Aztec Center Student Union project were sufficient to meet the objectives of this audit. There were no reportable observations revealed during the review.
GENERAL INFORMATION

BACKGROUND

In March 2010, the San Diego State University (SDSU) students approved an increase in Student Body Center fees to build a new student union. In May 2010, the Board of Trustees (BOT) approved schematic plans for the Aztec Center Student Union project at a cost of $101,200,000, with funding from student fee reserves and systemwide revenue bonds, to be repaid from Student Body Center fees.

At first, the campus initiated conceptual plans for the renovation and expansion of the Student Union, and in December 2009, the campus executed an agreement with the architectural firm Cannon Design for services related and incidental to the design and construction of the Aztec Center Renovation project. It also executed an agreement with the construction manager (CM), Sundt Construction, Inc., for pre-construction services that included design and bid phase services. However, the design was terminated during the schematic phase due to the number of deficiencies in the existing building. The cost to address the seismic and accessibility deficiencies prompted the campus to revise the strategy from a renovation and expansion project to a complete building replacement. In August 2011, the campus executed a guaranteed maximum price (GMP) agreement with the CM for construction phase services, at a construction cost of $67,264,176, and issued a Notice to Proceed on August 21, 2011, with a completion date of June 6, 2013. The State Fire Marshal granted a Certificate of Occupancy on January 16, 2014, and the campus filed a Notice of Completion on April 30, 2014. The Trustees and the CM agreed to the revised completion date of April 30, 2014, through the execution of the final settlement change order for the project.

The Aztec Center Student Union project occupies a prime location on campus and serves as the campus gateway to College Avenue and the SDSU Transit Center and is in close proximity to administrative offices, student services, and housing facilities. The new four-story, 206,000-square-foot facility includes offices for Associated Students and other student organization offices, a satellite recreation center, meeting rooms, a 300-fixed-seat theater, a bowling alley and gaming center, and dining outlets. In addition, there are several outdoor seating areas and courtyards for dining, studying, relaxing, and enjoying outdoor entertainment. The project achieved a Leadership in Energy and Environmental Design (LEED) platinum 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 SDSU campus managed the Aztec Center Student Union project, and it chose the CM at Risk with 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.
Campus presidents have delegated 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 BOT policies; 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 aforementioned certification procedure 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 that 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.

Each campus president (or designee) also has delegated authority to make all professional appointments relative to capital outlay projects and campus physical development in accordance with applicable statutes, regulations, BOT policies, and ICSUAM provisions; and must ensure the use of systemwide standardized architectural, engineering, and other professional appointment contract forms. Further, each construction administrator, project manager, inspector of record, campus representative, and design professional is required to use the CSU Construction Management Procedures Manual, which contains the CSU construction management policies and procedures that apply to a project.

SCOPE

We visited the SDSU campus and the offices of the construction manager and selected subcontractors from November 12, 2014, through December 12, 2014. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls for the Aztec Center Student Union project were in place and operative.

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, pricing, and tracking of change orders.
• Administration of subcontractor labor rates and associated burden.
• Construction management and overall project cost accounting and reporting.
• Construction allowances and contingency balances.

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.

Our testing and methodology was designed to provide a review of key operational and administrative controls, which included detailed testing on a limited number of construction manager and selected subcontractor transactions. Our review did not examine all aspects of financial controls or encompass all financial transactions for every contractor and subcontractor.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

This review emphasized, but was not limited to, compliance with:

• Executive Order (EO) 672, Delegation of Capital Outlay Management Authority and Responsibility
• EO 666, Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development
• ICSUAM §9000 through §9005, Capital Outlay and Public Works Contracts
• ICSUAM §9200 through §9212, Professional Services for Campus Development
• ICSUAM §9700 through §9843, Construction Management for Public Works Contracts
• CSU Construction Management Procedures Manual
- CSU Administration of University Property - Equipment Procedures
- Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects
- Public Contract Code Chapter 2.5, CSU Contract Law
- Public Contract Code §4100 et seq., Subletting and Subcontracting Fair Practices Act
- Government Code §13402 and §13403

AUDIT TEAM

- Senior Director: Janice Mirza
- Senior Auditor: Jamarr Johnson