June 28, 2016

Susan Martin, Interim President
San Jose State University
One Washington Square
San Jose, CA 65192

Dear Dr. Martin:

Subject: Audit Report 16-09, Student Wellness Center, San Jose State University

We have completed an audit of the Student Wellness Center construction project as part of our 2016 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

I have reviewed the management response and have concluded that it appropriately addresses our recommendation. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

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 José State University

Student Wellness Center

Audit Report 16-09
May 25, 2016
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, except for the effect of the observations described below, the fiscal, operational, and administrative controls for the Student Wellness Center project, taken as a whole, were sufficient to meet the objectives of this audit. Our audit procedures did identify opportunities to improve controls over compliance with campus accessibility standards, Group II equipment, and the project closeout checklist.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PLAN REVIEW

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<th>OBSERVATION</th>
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<tr>
<td>The campus did not maintain a written certification stating that the campus organization representing people with disabilities was given the opportunity to review the plans for the Student Wellness Center, as required by Integrated California State University Administrative Manual (ICSUAM) §9233.01, Responsibilities of Project Administrator Before and During Schematic Design Phase.</td>
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Maintaining a written certification from the campus organization representing people with disabilities that documents its review of plans for capital projects reduces the risk of noncompliance with campus accessibility standards.

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<th>RECOMMENDATION</th>
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<td>We recommend that the campus maintain future certification statements showing that the campus organization representing people with disabilities was given the opportunity to review capital project plans.</td>
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<th>MANAGEMENT RESPONSE</th>
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<tr>
<td>We concur. We will maintain future certification statements showing that the campus organization representing people with disabilities was given the opportunity to review capital project plans.</td>
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Completion of compliance: By September 25, 2016

2. GROUP II EQUIPMENT

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<td>Group II equipment purchased for the Student Wellness Center project was not always tagged and recorded in property inventory records.</td>
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Specifically, we found that two capital equipment items worth a total of $20,182 were neither tagged with a unique identification number nor recorded in property inventory records, as required by the San José State University (SJSU) Property Office Procedure Manual. |

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

<table>
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<th>RECOMMENDATION</th>
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We recommend that the campus tag all project Group II equipment with a unique identification number and record it in property inventory records.

**MANAGEMENT RESPONSE**

We concur. The campus will tag all project Group II equipment with a unique identification number and record it in property inventory records.

Completion of compliance: By September 25, 2016

### 3. PROJECT CLOSEOUT

**OBSERVATION**

The campus did not complete the project closeout checklist, as required by ICSUAM §9830.03, *Final Inspection of Construction*.

Completing the project closeout checklist before completing the Certification of Completion and filing the Notice of Completion reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**RECOMMENDATION**

We recommend that the campus ensure that the project manager completes a project closeout checklist prior to completing the Certificate of Completion and filing the Notice of Completion for future projects.

**MANAGEMENT RESPONSE**

We concur. The campus will ensure that the project manager completes a project closeout checklist prior to completing the Certificate of Completion and filing the Notice of Completion for future projects.

Completion of compliance: By September 25, 2016
GENERAL INFORMATION

BACKGROUND

In November 2012, the Board of Trustees (BOT) approved schematic plans for the SJSU Student Wellness Center at a project cost of $34,243,000, with funding from systemwide revenue bonds and a health center program reserve contribution of $9,389,000.

In June 2012, the campus solicited project bids and selected Blach Construction Company as the design-builder. The campus executed a design and construction agreement with Blach Construction Company on March 4, 2013, at a cost of $24,556,413, and issued the Notice to Proceed on March 5, 2013, with a completion date of February 11, 2015. The State Fire Marshal granted beneficial occupancy on April 1, 2015, and the campus filed the Notice of Completion on April 24, 2015.

The Student Wellness Center project is a new 53,000-square-foot facility centrally located between the SJSU Event Center and Spartan Complex that includes a pharmacy, wellness center, and physical therapy, counseling services, and administrative offices; as well as three clinical areas. The three-story building has a complete fire sprinkler system and a prefabricated steel moment frame structure designed to support flexibility and efficiency in the space layout. The project features glass walls along the east façade that provide views of the main public corridor on all three levels. Each floor has a receptionist desk and internal corridors to provide privacy for counseling and clinical services. The project will meet design standards equivalent to 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 SJSU campus managed the Student Wellness Center 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 (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.

Campus presidents have been delegated the authority to directly manage 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 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 campus capital outlay management plan 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. Alternatively, the CPDC construction management unit may perform construction administration and management.

Each campus president (or designee) also has been 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 SJSU campus and the offices of the design-builder and selected subcontractors from February 15, 2016, through March 18, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls for the Student Wellness Center 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 design-builder 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 §9230 through §9237, *Project Plan Development for Major Capital Construction Projects*
• ICSUAM §9700 through §9843, *Construction Management for Public Works Contracts*
• CSU *Construction Management Project Administration Reference Manual*
• CSU *Administration of University Property - Equipment Procedures*
• *Contract General Conditions for Design-Build 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
• SJSU *Property Office Procedure Manual*
AUDIT TEAM

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