February 2, 2016

Dr. Horace Mitchell, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311

Dear Dr. Mitchell:

Subject: Audit Report 15-13, Student Housing Northeast Phase I,
California State University, Bakersfield

We have completed an audit of the Student Housing Northeast Phase I construction project as part of our 2015 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.

There were no reportable observations revealed during the review. The final audit 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

cc: Timothy P. White, Chancellor
CONSTRUCTION

California State University,
Bakersfield

Student Housing Northeast Phase I

Audit Report 15-13
January 29, 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, the fiscal, operational, and administrative controls in effect for the Student Housing Northeast Phase I project were sufficient to meet the objectives of this audit. There were no reportable observations revealed during the review.
GENERAL INFORMATION

BACKGROUND

In November 2012, the Board of Trustees (BOT) approved schematic plans for the California State University, Bakersfield (CSUB) Student Housing Northeast Phase I at a project cost of $41,311,000, with funding from systemwide revenue bonds, a housing program reserve contribution of $500,000, and an $8 million internal loan from the Affordable Student Housing Revolving Fund loan program.

In May 2012, the campus solicited project bids and selected Bernard Brothers, Inc. as the design-builder. The campus executed a design and construction agreement with Bernard Brothers, Inc. on September 17, 2012, at a cost of $34,799,000, and issued the Notice to Proceed on October 8, 2012, with a completion date of December 29, 2014. The campus took beneficial occupancy on January 2, 2015 and filed the Notice of Completion on January 30, 2015.

The Student Housing Northeast Phase I project comprises three four-story residential buildings and a single-story support facility and is located on the northeast side of the campus. The facilities also include study rooms, lounges, classrooms, a game room, laundry facilities, and a multipurpose room. A central courtyard allows opportunities for further group or independent study while providing residents with active outdoor areas for recreation. The project incorporates operable windows to maximize light and ventilation, as well as high-performance glazing and sun shades to help reduce solar heat gain. Solar hot water panels on the roof reduce annual energy costs, and energy-efficient light fixtures and controls reduce energy costs for lighting throughout the complex. The project is seeking 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 California State University, Fullerton (CSUF) campus managed the CSUB Student Housing Northeast Phase I 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.

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 CSUB campus and the offices of the design-builder and selected subcontractors from August 17, 2015, through September 18, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls for the Student Housing Northeast Phase I 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 Procedures 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

AUDIT TEAM

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Senior Auditor: Jamarr Johnson