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January 31, 2020

Dr. William A. Covino, President
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Dear Dr. Covino:

Subject: Audit Report 19-64, Bioscience Innovation Center, California State University, Los Angeles

We have completed an audit of the *Bioscience Innovation Center* construction project as part of our 2019 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 recommendations. The management response has been incorporated into the final audit report, which has been posted to 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

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CONSTRUCTION

**California State University,
Los Angeles**

Bioscience Innovation Center

Audit Report 19-64
December 18, 2019

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls over construction activities; identify cost recovery opportunities; and ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, construction contract general conditions, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for the Bioscience Innovation Center project as of September 26, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, the audit did not reveal any significant internal control weaknesses that would be considered pervasive in their effects on construction management. However, the review did indicate that attention is required to ensure that memorandums of understanding (MOU) are in place to reimburse the campus for construction management services provided to auxiliary organizations, and to ensure that project final reconciliations are completed and reviewed.

It should be noted that the general contractor did not provide all of the requested information needed to complete the review. Specifically, the general contractor did not provide requested documentation related to the prequalification of trade subcontractors, documentation to support the percent charged for Subguard insurance, or project job cost detail records for allowance and contingency work. Therefore, we could not fully review these areas. Although this did not materially impact the results of our audit, we felt it was important to bring it to the attention of campus and systemwide management.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. COST RECOVERY

OBSERVATION

The campus did not recover costs for project management services incurred for the Bioscience Innovation Center.

The Bioscience Innovation Center is owned and operated by an auxiliary organization, University Auxiliary Services (UAS). As described in the campus Capital Outlay Management Plan, the campus' facilities, planning, design and construction (FPDC) department is responsible for managing construction projects for campus auxiliaries and self-support funds. This requires remuneration of project management services. However, the campus did not execute an MOU or service agreement with UAS to document the services provided and the reimbursement for these services. Additionally, the campus did not charge or invoice UAS for these services.

RECOMMENDATION

We recommend that the campus:

- a. Determine and document the value of the project management services provided by the campus for the Bioscience Innovation Center, and obtain reimbursement for these services from UAS.
- b. Remind appropriate individuals within the FPDC department that project management services provided to auxiliaries and self-support groups should be documented and reimbursed.

MANAGEMENT RESPONSE

We concur.

- a. The campus will work with UAS to determine the value of the project management services provided by the campus for the Bioscience Innovation Center and obtain reimbursement for these services from UAS.
- b. Staff will be reminded that project management services provided to auxiliaries and self-support groups should be documented and reimbursed.

Estimated completion date: February 17, 2020

2. FINAL ACCOUNTING

OBSERVATION

The campus did not receive a final accounting of project costs from the general contractor for the Bioscience Innovation Center project.

Specifically, we found that the general contractor did not provide sufficient documentation demonstrating that the total cost of the project equaled or exceeded the final guaranteed maximum price (GMP) construction agreement. This documentation should include, but not be limited to, all actual subcontractor costs, direct material and labor provided by the general contractor, and a reconciliation of contractual fees paid by the campus.

Submittal of a final accounting of actual project costs by the general contractor decreases the risk that the campus' payments will exceed actual construction costs (up to the GMP) and that any errors and irregularities will not be detected.

RECOMMENDATION

We recommend that the campus require the general contractor to submit a final accounting of project costs for the Bioscience Innovation Center project and perform a verification of the costs. In the event the total actual cost is less than the construction agreement, the campus should request that the difference be returned to the campus.

MANAGEMENT RESPONSE

We concur. The campus has obtained and will review the documentation provided by the general contractor in regard to the project costs for the Bioscience Innovation Center. In the event the total actual cost is less than the construction agreement, the campus will request the difference returned.

Estimated completion date: February 17, 2020

GENERAL INFORMATION

BACKGROUND

In November 2016, the Board of Trustees (BOT) approved schematic plans for the Bioscience Innovation Center project at a cost of \$13,937,000, with funding coming from several sources, including grants from the U.S. Economic Development Administration and Los Angeles County, donor funds, and designated campus reserves.

UAS, a recognized auxiliary organization of the California State University, Los Angeles (Cal State LA), was the recipient of these funds and owner of the Bioscience Innovation Center. The campus provided construction management services for the project and in June 2016 executed an agreement with the architectural firm Jon Lundstrom Architects, Inc. for services related and incidental to the design and construction of Bioscience Innovation Center. In December 2017, the campus also executed a GMP agreement with the construction manager (CM), Sundt Construction, Inc., for construction phase services at a construction cost of \$12,132,547 and issued a Notice to Proceed on December 20, 2017, with a completion date of December 20, 2017. The campus filed a Notice of Completion on February 7, 2019.

The Bioscience Innovation Center project is a new 20,750-square-foot facility built on campus land, leased to UAS, along Paseo Rancho Castilla on the southwest edge of the campus. Cal State LA partnered with Los Angeles County to develop an incubator building as part of the LA Bioscience Corridor that would support the development and growth of bioscience-related research, development, and manufacturing enterprises in East Los Angeles, as well as support economic, workforce, and infrastructure development in the area. The Bioscience Innovation Center will offer leasable space to bioscience start-ups by providing low-cost lab space, industry mentors, and support services for entrepreneurs. The two-story facility is designed to house up to eight modules of wet or dry laboratories, along with shared autoclave and freezer storage and conference, collaboration, and kitchen facilities. Each laboratory provides all basic biomedical research utilities and equipment within an open, flexible, and secure space. Spaces will be for lease and will be focused on bioscience innovation, development, and job creation. The project was designed to achieve Leadership in Energy and Environmental Design (LEED) gold certification. 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 Cal State LA campus managed the Bioscience Innovation Center 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 CM, and not with the university. Further, there is a potential for cost savings should the project be completed below the GMP.

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 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 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.

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 Project Administration Reference Manual*, which contains the CSU construction management policies and procedures that apply to a project.

SCOPE

We visited the Cal State LA campus and the offices of the CM from August 12, 2019, through September 26, 2019. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Bioscience Innovation Center project were in place and operative. The audit focused on procedures in effect during the planning and construction of the project.

Specifically, we reviewed and tested:

- Delegation of construction management authority.
- Cost recovery processes for campus-provided services.
- Operating and lease agreements between the campus and UAS.
- 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, required contract bonds and insurance, and flow down of appropriate contract terms and conditions.
- Construction management and accounting, including allowance and contingency tracking and invoicing and payment applications.
- Review, approval, pricing, and tracking of change orders.
- Subcontractor administration.
- Close-out processes, including completion of required inspections and certifications.

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, administrative, and financial controls, including interviews, walkthroughs, and detailed testing on a limited number of CM 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 federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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:

- 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
- Title 5, §42500 through §42502, *Functions of Auxiliary Organizations and Requirement for Written Agreements*
- Executive Order (EO) 666, *Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development*
- EO 669, *Leases*
- EO 672, *Delegation of Capital Outlay Management Authority and Responsibility*
- 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*

- *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*
- CSU Auxiliary Organization Compliance Guide
- CSU Auxiliary Organization Sound Business Practice Guidelines

AUDIT TEAM

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