

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

August 11, 2020

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840

Dear Dr. Conoley:

**Subject: Audit Report 19-65, College of Continuing and Professional Education,
California State University, Long Beach**

We have completed an audit of the *College of Continuing and Professional Education* 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,



Vlad Marinescu
Interim Chief Audit Officer

c: Timothy P. White, Chancellor

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CONSTRUCTION

**California State University,
Long Beach**

College of Continuing and Professional Education

Audit Report 19-65
May 18, 2020

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to construction activities; identify cost recovery opportunities; and ensure compliance with relevant governmental regulations; Trustee policy; Office of the Chancellor (CO) 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 College of Continuing and Professional Education (CCPE) project as of January 24, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

However, the review did identify opportunities for improvement in the campus permitting process, timely execution of agreements, and completion and review of project final reconciliations.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PLAN CHECK APPROVALS

OBSERVATION

The campus did not always obtain appropriate plan check approvals before beginning work on the CCPE project.

The campus issued eight conditional building permits to correspond with various phases of construction on the CCPE project over the course of a year. Although phased building permits are acceptable, we found that in some cases, these permits were issued without appropriate plan check approvals, such as approvals from the state fire marshal, the division of state architect, or third-party reviewers. However, these approvals were obtained prior to issuing the final building permit.

Obtaining appropriate regulatory and third-party plan check approvals before beginning work on a project reduces the risk of noncompliance with state regulations and reduces the probability of rework and increased project costs.

RECOMMENDATION

We recommend that the campus consult with the chancellor's office Capital Planning, Design and Construction (CPDC) department regarding the appropriate use of phased building permits and the timing of associated plan check approvals, and communicate this information to relevant campus personnel.

MANAGEMENT RESPONSE

We concur. The campus will consult with the chancellor's office CPDC department regarding the appropriate use of phased building permits and the timing of associated plan check approvals, and communicate this information to relevant campus personnel.

Estimated completion date: August 7, 2020

2. FINAL ACCOUNTING

OBSERVATION

The campus did not fully document the final accounting of project costs for the CCPE project.

Although the campus and general contractor processed a number of close-out change orders to reconcile costs such as allowances, contingency, and bid savings, the campus did not document its review of final project costs to the contractor's general ledger. The review of costs to the general ledger should include sufficient documentation to demonstrate that the total cost of the project equaled or exceeded the final guaranteed maximum price (GMP) stated in the construction agreement, and should include such information as all actual

subcontractor costs, direct material and labor provided by the general contractor, and a reconciliation of contractual fees paid by the campus.

Documenting the final accounting of project costs to the contractor’s general ledger 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 going forward, the campus document the final reconciliation of project costs to the contractor’s general ledger, perform a verification of the costs, and maintain documentation of this review.

MANAGEMENT RESPONSE

We concur. The campus will instruct construction personnel to document the final accounting of project costs on the forms provided by the CPDC for all future projects in order to better document the process.

Estimated completion date: August 7, 2020

3. CONSTRUCTION AGREEMENT

OBSERVATION

The Collaborative Design-Build construction agreement between the campus and the general contractor was not timely executed.

We found that the construction agreement was signed after construction began and 37 days after the effective date of the notice to proceed (NTP).

Properly executing construction agreements prior to issuing the NTP protects the university and the California State University (CSU) with regard to financial and legal obligations.

RECOMMENDATION

We recommend that the campus remind appropriate construction personnel that the NTP should not be issued until construction agreements are fully executed and payment and performance bonds are obtained.

MANAGEMENT RESPONSE

We concur. The campus will remind appropriate construction personnel that the NTP should not be issued until construction agreements are fully executed and payment and performance bonds are obtained.

Estimated completion date: August 7, 2020

GENERAL INFORMATION

BACKGROUND

In November 2016, the Board of Trustees (BOT) approved schematic plans for the CCPE project at a cost of \$28,909,000, with funding from CCPE program-designated reserves and systemwide revenue bonds.

In January 2016, the campus solicited project bids and selected Matt Construction as the design-builder. The campus executed a design and construction agreement with Matt Construction on June 2, 2017, at a cost of \$25,560,455, and issued the NTP on April 26, 2017, with a completion date of November 21, 2018. The campus filed the Notice of Completion on February 22, 2019. The final project cost, after all change orders had been processed, was \$24,615,537.

The CCPE project is a new 37,980-square-foot, three-story building located at the southeast end of campus. The building consists of classrooms, student interaction space, and a multi-purpose conference room to provide a centralized facility for CCPE course offerings and events. The first floor houses a 240-seat conference center accessible from an outdoor pre-function space, a catering kitchen, and a lobby. The conference center can transition into three smaller classrooms using operable partitions. The second and third floors hold 20 smaller classrooms, a lounge area, and restrooms. The project's design uses several energy-saving and green-building features and allows each classroom setting to be customized to suit a variety of academic needs. The project was the first in the CSU system to become a net-zero energy consumption building. To reach net-zero energy consumption, solar panels were installed on the building's roof and canopy. The solar panels provide enough energy to offset all the energy consumed by the building. The project was designed to achieve a Leadership in Energy and Environmental Design (LEED) platinum 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 California State University, Long Beach (CSULB) campus managed the CCPE project, and it chose the Collaborative Design-Build delivery method. In this method, the campus establishes the project criteria, and the general contractor and architect/engineer propose together as a collaborative design-build (CDB) team. Working closely with the campus, the CDB team establishes a design, specifications, and GMP for the project. The CDB team 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 design-build team, 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 CSULB campus and the offices of the general contractor and selected subcontractors from December 2, 2019, through January 24, 2020. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the CCPE project are 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.
- Review and approval of project design, budget, and funding.
- Administration of the bid and award process.
- Contract execution and required contract bonds and insurance.
- 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, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on a limited number of design-builder and 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
- Executive Order (EO) 666, *Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development*
- 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 Collaborative Design-Build Major Projects*

AUDIT TEAM

Director of Audit Analytics, Operations, and Quality Assurance: Wendee Shinsato
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