

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

December 20, 2021

Mr. Framroze M. Virjee, President
California State University, Fullerton
800 N. State College Boulevard
Fullerton, CA 92834

Dear Mr. Virjee:

Subject: Audit Report 21-51, Eastside 2 Parking Structure, California State University, Fullerton

We have completed an audit of the *Eastside 2 Parking Structure* construction project as part of our 2021-2022 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 will be 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
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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CONSTRUCTION

**California State University,
Fullerton**

Eastside 2 Parking Structure

Audit Report 21-51
December 20, 2021

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 Eastside 2 Parking Structure as of September 3, 2021, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

However, the review did find that improvement was needed in the change order review process. We also identified opportunities for improvement in the campus oversight of the subcontractor selection process and the campus accessibility review.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CHANGE ORDER ADMINISTRATION

OBSERVATION

The campus review of design-builder and subcontractor change orders for the Eastside 2 Parking Structure needed improvement.

We reviewed seven subcontractor change orders, four design-builder change orders, and four credit change orders, and we found that:

- In nine instances, supporting documentation to substantiate the costs for change order work, such as invoices, price quotes or timesheets, was not retained to substantiate the costs incurred.
- In two instances, costs for bonds and Disabled Veteran Business Enterprise (DVBE) participation were incorrectly charged. This resulted in an overpayment of \$23,124.
- In two instances, the design-builder's markup was incorrectly calculated. This resulted in an overpayment of \$6,295.
- The campus did not collect certified payroll records and hourly labor rate worksheets for trade subcontractors to use in the verification of change order labor costs, as required by Integrated California State University Administrative Manual (ICSUAM) §9824.01.

Appropriate review of change orders decreases the risk of inappropriate or unsupported project costs.

RECOMMENDATION

We recommend that the campus:

- a. Provide to relevant personnel refresher training on the change order review process, including collection of supporting documentation to substantiate the costs charged, collection and review of certified payroll records and hourly labor rate worksheets, and review and proper calculation of subcontractor and design-builder markup.
- b. Review the specified change orders noted above to determine whether the campus should pursue recovery of the incorrectly calculated costs, document this determination, and, if applicable, document the resulting recovery.

MANAGEMENT RESPONSE

We concur.

- a. Capital programs and facility management (CPFM) will provide relevant personnel training on the change order review process, including the areas identified in the report. This training will be completed by February 25, 2022.

- b. Management has reviewed the change orders identified in the report and determined that a demand letter will be sent to the contractor in an effort to recover the incorrectly calculated costs. This will be completed by March 31, 2022.

2. PRE-QUALIFICATION OF SUBCONTRACTORS

OBSERVATION

The campus did not ensure that the design-builder performed prequalification of major trade subcontractors for the Eastside 2 Parking Structure project.

Prequalification of major subcontractors provides assurance that subcontractors have adequate project experience, are fiscally viable, and have an appropriate safety record to ensure successful performance on the project.

RECOMMENDATION

We recommend that the campus ensure that design-builders perform prequalification of the required trade subcontractors before bids for the project are submitted.

MANAGEMENT RESPONSE

We concur. Management will establish a process to ensure that the design-builders perform the required prequalification for trade subcontractors before bids are submitted. This will be completed by February 25, 2022.

3. PLAN REVIEW

OBSERVATION

The campus office of disability support services did not review the plans for the Eastside 2 Parking Structure.

Review of construction projects by the campus organization representing people with disabilities allows feedback on signage, impact to students, and compliance with accessibility standards, and reduces the risk of lawsuits and noncompliance with regulations.

RECOMMENDATION

We recommend that the campus ask the campus organization representing people with disabilities to review and provide feedback on construction projects, and document this review.

MANAGEMENT RESPONSE

We concur. Management has created a checklist to obtain feedback on construction projects from the disability support services (DSS) office. As part of this process, CPM management will document feedback obtained from the DSS office before the issuance of a permit.

GENERAL INFORMATION

BACKGROUND

In March 2018, the Board of Trustees (BOT) authorized approval authority for capital projects up to \$40 million to the chancellor, as well as authorization of schematic design for parking structures. The budget for the Eastside 2 Parking Structure project was \$38,943,013, and therefore, it did not require BOT approval.

In July 2018, the campus solicited project bids and selected Bomel Construction Co., Inc., as the design-builder. The campus executed a design and construction agreement with Bomel Construction Co., Inc., on January 11, 2019, at a cost of \$25,765,538 and issued the first Notice to Proceed for the design phase on January 21, 2019. The final project cost after all change orders had been processed was \$33,839,534. The campus filed the Notice of Completion on January 8, 2021.

The Eastside 2 Parking Structure project is a state-of-the-art facility located on the eastern edge of the campus that is a mirror image of the Eastside Parking Structure designed and completed in 2010. The Eastside 2 Parking Structure is six levels and includes 1,901 spaces, with 19 motorcycle spaces, and features similar circulation patterns and ramping systems as those used for the 2010 structure. The facade design carries over the architectural aesthetic of the Eastside Parking Structure, focusing on finishes and materials that create a visual cohesiveness. The curved main staircase provides easy access to the campus and clearly identifies primary pedestrian access points. The garage has three connection bridges that allow users to cross between the two structures, increasing searchable parking area. Elevator lobbies at each level are situated well outside the vehicular drive aisle to provide a safe buffer between users waiting for the elevator and circulating vehicles. Sustainable features include energy-efficient LED lighting throughout the building, a site biofiltration for rooftop drainage, and roof-level solar canopies.

The California State University, Fullerton campus managed the Eastside 2 Parking Structure project, and it chose the Design-Build delivery method. In this method, the design and construction aspects are contracted with a single design-builder (general contractor) 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 in 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 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

Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Eastside 2 Parking Structure 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.
- Administration of the bid and award process.
- Contract execution and required contract bonds and insurance.
- Plan reviews and permitting in accordance with CSU requirements.
- Construction management and accounting, including 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 Design-Build Projects*

AUDIT TEAM

Director of Audit and Advisory Services: Wendee Shinsato
Senior Auditor: Jamarr Johnson