

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

May 12, 2022

Dr. Thomas A. Parham, President
California State University, Dominguez Hills
1000 E. Victoria Street
Carson, CA 90747

Dear Dr. Parham:

**Subject: Audit Report 21-52, Center for Science and Innovation,
California State University, Dominguez Hills**

We have completed an audit of the *Center for Science and Innovation* 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: Jolene Koester, Interim Chancellor
Adam Day, Chair, Committee on Audit

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CONSTRUCTION

**California State University,
Dominguez Hills**

Center for Science and Innovation

Audit Report 21-52
May 12, 2022

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 Center for Science and Innovation project as of January 28, 2022, 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 review of final project costs, the campus document retention process, and the process to separately identify and track project allowances.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FINAL ACCOUNTING OF PROJECT COSTS

OBSERVATION

The final accounting of project costs, or final reconciliation, submitted by the general contractor for the Center for Science and Innovation project did not accurately reflect final project costs.

We found that subcontractor and future anticipated costs shown in the final reconciliation were higher than the actual costs incurred by a total of \$100,641. The contract general conditions stipulate that if the actual costs of the project are less than the guaranteed maximum price (GMP) as adjusted by change orders, the general contractor shall pay the Trustees the difference. As the total actual costs for the project were lower than the GMP, the effect of the overstated general contractor's direct costs in the final reconciliation was to decrease the final credit provided to the campus.

The specific cost breakdown is as follows:

- Owner-controlled insurance program (OCIP) credits for subcontractors in the amount of \$76,595 were not accounted for.
- Future anticipated costs of \$24,046 for subcontractor default insurance were applied to final project costs but were never incurred.

The cost differences noted during the audit existed because final subcontractor change orders to account for OCIP credits and final subcontractor default insurance invoices had not been processed at the time the reconciliation was performed.

RECOMMENDATION

We recommend that the campus review the final reconciliation to determine whether the campus should pursue recovery of the unsubstantiated project costs, document this determination, and if applicable, document the resulting recovery.

MANAGEMENT RESPONSE

We concur. The campus will review the final reconciliation to determine whether the campus should pursue recover of the unsubstantiated project costs, document the determination, and document the resulting recovery.

Projected completion date: June 2022

2. DOCUMENT RETENTION

OBSERVATION

Retention of documentation related to the bidding process for the Center for Science and Innovation project needed improvement.

Specifically, the following documents could not be located:

- Fee proposals for bidders who were not awarded the construction agreements. The fee proposal for the winning bidder was, however, in the project files.
- Technical scoring sheets for all members of the project evaluation committee. The abstract of fee proposals documenting the final score for each bidder, however, was retained in the project file.
- Conflict-of-interest statements for committee members involved in the selection process of the general contractor.

Project management responsibilities during the bidding process were shared between the campus and the CO, and the individuals involved in project evaluation had since left the California State University, which may have contributed to the retention issues.

RECOMMENDATION

We recommend that the campus develop a process to obtain and maintain appropriate documentation in project construction files for future construction projects.

MANAGEMENT RESPONSE

We concur. The campus will develop a process to obtain and maintain appropriate documentation in project construction files for future construction projects.

Projected completion date: June 2022

3. ALLOWANCES

OBSERVATION

Administration of allowances for the Center for Science and Innovation project needed improvement.

We found that:

- Two credit change orders that were executed to return unused allowances did not include a return of the general contractor's fees. These fees amounted to \$3,507.

- General requirements were not competitively bid by the general contractor and therefore should have been identified as an allowance in the GMP agreement, with costs separately tracked and approved, and any unused portion returned to the campus with fees.
- Although the general contractor identified four allowances in its GMP narrative, two of the allowance costs were not separately identified or broken out in the detailed GMP listing of costs, as required, and thus were not separately tracked and accounted for. However, we were able to verify that the allowances were fully expended.

Proper administration of allowance costs decreases the risk that allowances will not be used for their intended purpose, and decreases the risk of inappropriate or unsupported project costs.

RECOMMENDATION

We recommend that the campus:

- a. Review the credit change orders noted above to determine whether the campus should pursue recovery of the general contractor's fees, document this determination, and, if applicable, document the resulting recovery.
- b. Provide refresher training to relevant personnel regarding the administration of allowance costs, including the proper identification and segregation of allowances in the GMP, separate tracking and accounting for allowance costs, and return of unused allowances.

MANAGEMENT RESPONSE

We concur.

- a. The campus will review the credit change orders and determine whether the campus should pursue recovery of the general contractor's fees, document the determination, and document the resulting recovery.
- b. The campus will provide refresher training to relevant personnel regarding the administration of allowance costs, which will include the proper identification and segregation of allowances in the GMP, separating tracking and accounting for allowance costs, and return of unused allowances.

Projected completion date: June 2022

GENERAL INFORMATION

BACKGROUND

In November 2016, the Board of Trustees (BOT) approved schematic plans for the Center for Science and Innovation project at a cost of \$81,234,000, with funding from campus and systemwide reserves and systemwide revenue bonds.

In June 2016, the campus executed an agreement with the architectural firm Hammel, Green, and Abrahamson, Inc. for services related and incidental to the design and construction of the Center for Science and Innovation project. It also executed an agreement with the construction manager (CM), C.W. Driver LLC, for preconstruction services that included design and bid phase services. In November 2017, the campus executed a GMP agreement with the CM for construction phase services at a construction cost of \$60,770,150 and issued a Notice to Proceed on January 23, 2018. The campus filed a Notice of Completion on January 27, 2020. The total project costs were \$71,705,414 at the time of completion.

The Center for Science and Innovation project is a three-story instructional building located south of the existing Natural Sciences and Mathematics (NSM) building. The new 91,000-square-foot facility houses teaching and research laboratory space for chemistry, biology, physics, and the Center for Innovation in STEM Education (CISE), including a maker-space fabrication lab. Additionally, facilities were created for graduate programs that are offered through the College of Extended Education. The building has been situated to create a landscaped courtyard south of the existing NSM building, which will link the two buildings and provide an outdoor space for congregation and collaboration. Sustainable design features of the building include provisions for smart controls for lighting and natural ventilation, open space on the site, advanced energy metering, use of recycled and regional materials, optimized energy performance and water-efficient landscaping, and energy-efficient LED lighting fixtures. The project was designed to achieve a 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 California State University, Dominguez Hills (CSUDH) campus managed the Center for Science and Innovation 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 construction manager, 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

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from November 1, 2021, through January 26, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Center for Science and Innovation 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.
- Professional services agreements and any extra services changes.
- 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 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 construction manager 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 CM at Risk with Guaranteed Maximum Price Projects*

AUDIT TEAM

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