

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

August 15, 2022

Dr. Ellen N. Junn, President
California State University, Stanislaus
One University Circle
Turlock, CA 95382

Dear Dr. Junn:

**Subject: Audit Report 21-54, Construction – University Union Renovation and Expansion,
California State University, Stanislaus**

We have completed an audit of the *University Union Renovation and Expansion* 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
Lateefah Simon, Chair, Committee on Audit
Yammilette Rodriguez, Vice Chair, Committee on Audit

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CONSTRUCTION

**California State University,
Stanislaus**

University Union Renovation and Expansion

Audit Report 21-54
August 15, 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 University Union Renovation and Expansion project as of June 24, 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 documentation of project closeout processes, as well as in the separate identification and tracking of project allowances. We also identified opportunities for improvement in the campus review of the final reconciliation, campus accessibility review and Disabled Veterans Business Enterprise (DVBE) participation reporting.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PROJECT CLOSEOUT

OBSERVATION

Project close-out administration needed improvement.

Specifically, we found that:

- The campus could not locate the internal certificate of occupancy, certification of completion, and release of retention forms. The certificate of occupancy should be approved by the campus deputy building official, as the individual with jurisdictional authority over the project and to confirm that all requirements for occupancy have been met. The certification of completion certifies that the project is completed in all material respects and in accordance with the contract documents, a cessation of labor has occurred, and it is appropriate to file a notice of completion with the county recorder. Release of retention forms should be approved by both the project manager and campus construction administrator to ensure that it is appropriate to release the final funds for the project.
- Although the campus used the appropriate project close-out checklist, not all fields were fully completed or signed off, including the items noted above.

Fully executing the project closeout checklist and maintaining close-out documentation decreases the risk of noncompliance with systemwide procedures and government regulations and helps to ensure that all required steps in the close-out process have been adequately addressed.

RECOMMENDATION

We recommend that the campus:

- a. Provide training on the close-out process to relevant personnel to address the issues noted above.
- b. If the internal certificate of occupancy signed by the campus deputy building official cannot be located, complete a certificate of occupancy for the building.

MANAGEMENT RESPONSE

We concur. The campus will provide training on the close-out process to relevant personnel to address the issues noted above. The campus will complete a certificate of occupancy for the building if the internal certificate of occupancy signed by the campus deputy building official cannot be located.

Expected completion date: November 30, 2022

2. ALLOWANCES

OBSERVATION

Administration of allowances for the University Union Renovation and Expansion project needed improvement.

General requirements were not competitively bid by the design-builder and therefore should have been identified as an allowance in the guaranteed maximum price (GMP) agreement, with costs separately tracked and approved and any unused portion returned to the campus with fees.

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 provide refresher training to relevant personnel regarding the administration of allowance costs, including the proper identification and segregation of allowances in the GMP and separate tracking and accounting for allowance costs.

MANAGEMENT RESPONSE

We concur. The campus will provide refresher training to relevant personnel regarding the administration of allowance costs, including the proper identification and segregation of allowances in the GMP and separate tracking and accounting for allowance costs.

Expected completion date: November 30, 2022

3. FINAL RECONCILIATION

OBSERVATION

Campus review of the final reconciliation of project costs needed improvement.

We found that the final fee amounts submitted in the contractor's final reconciliation of project costs were incorrect as they did not reflect the fee amounts in the design-builder construction agreement. Additionally, it was unclear whether design fees that should have been included in the fee section of the reconciliation were being claimed as direct costs, as charges for the architect of the design-build team were included in the final reconciliation as direct material costs.

RECOMMENDATION

We recommend that the campus:

- a. Consult with Capital Planning, Design and Construction (CPDC) to understand the appropriate classification of fees, including design fees, in the final reconciliation of project costs and to determine how fees should have been correctly treated for this project.
- b. If the reclassification of fees results in project savings, determine whether the campus should pursue recovery of any funds, document this determination, and, if applicable, document the resulting recovery.

MANAGEMENT RESPONSE

We concur. The campus will consult with CPDC to understand the appropriate classification of fees, including design fees, in the final reconciliation of project costs and to determine how fees should have been correctly treated for this project. If the reclassification of fees results in project savings, the campus will determine whether the campus should pursue recovery of any funds, document this determination, and, if applicable, document the resulting recovery.

Expected completion date: December 15, 2022

4. PLAN REVIEW

OBSERVATION

The campus did not maintain a written certification stating that the campus organization representing people with disabilities was given the opportunity to review the plans for the University Union Renovation and Expansion project, as required by Integrated California State University Administrative Manual (ICSUAM) §9233.01, *Responsibilities of Project Administrator Before and During Schematic Design Phase*.

Maintaining a written certification from the campus organization representing people with disabilities that documents its review of plans for capital projects reduces the risk of noncompliance with campus accessibility standards.

RECOMMENDATION

We recommend that for future construction projects, the campus maintain certification statements showing that the campus organization representing people with disabilities was given the opportunity to review capital project plans.

MANAGEMENT RESPONSE

We concur. For future construction projects, the campus will maintain certification statements showing that the campus organization representing people with disabilities was given the opportunity to review capital project plans.

Expected completion date: November 30, 2022

5. SMALL BUSINESS AND DISABLED VETERAN BUSINESS ENTERPRISES

OBSERVATION

The campus did not obtain small business (SB) and DVBE participation documentation from the design-builder to support the reported SB and DVBE dollar amounts.

Although the design-builder provided a listing to the campus of subcontractors whose contract values were considered for SB and DVBE participation, no documentation, such as SB or DVBE certification numbers or certificates, was provided showing that these subcontractors were certified with the state. Therefore, we were unable to confirm whether the identified subcontractors met SB or DVBE requirements.

Obtaining SB and DVBE participation documentation from the design-builder decreases the risk of non-compliance with SB and DVBE contractual requirements and the risk of inaccurate reporting to the state.

RECOMMENDATION

We recommend that the campus reiterate to staff that SB and DVBE participation documentation provided by the design-builder should include evidence that claimed subcontractors are certified with the state of California.

MANAGEMENT RESPONSE

We concur. The campus will reiterate to staff that SB and DVBE participation documentation provided by the design-builder should include evidence that claimed subcontractors are certified with the state of California.

Expected completion date: November 30, 2022

GENERAL INFORMATION

BACKGROUND

In January 2017, the board of trustees (BOT) approved schematic plans for the University Union Renovation and Expansion project at a cost of \$53,400,000, with funding from Associated Students, Inc. capital reserves and systemwide revenue bonds.

In April 2016, the campus solicited project bids and selected Turner Construction Company as the design-builder. The campus executed a design and construction agreement with Turner Construction Company October 9, 2017, at a cost of \$43,232,540. The Notice to Proceed (NTP) was issued on October 16, 2017, with an anticipated completion date of December 16, 2019. The campus filed the Notice of Completion with the county recorder on March 12, 2020. The final project cost, after all change orders had been processed, was \$42,252,385.

The University Union Renovation and Expansion project is a new two-story building that is located at the center of the California State University, Stanislaus (Stanislaus State) campus. The project involved demolishing the existing University Union building and Warrior Grill dining area to construct the new 152,432-square-foot building. The building includes a multi-purpose assembly space, food service and retail facilities, the relocated bookstore, student government and leadership offices, lounges, conference rooms, and a coffee shop with a separate entrance for after-hours and weekend use. The first level of the building features a performance stage that opens to the outdoor forecourt, along with a tiered seating area that extends to the second level. The project also included the renovation and repurposing of the adjacent University Bookstore for use as an event center. The renovated space includes a catering kitchen, green room with a shower, and laundry room. 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 Stanislaus State campus managed the University Union Renovation and Expansion 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 design-build team. Working closely with the campus, the design-build team establishes a design, specifications, and GMP for the project. The design-build 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 Stanislaus State campus and the offices of the design-builder from May 9, 2022, through June 24, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the University Union Renovation and Expansion 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 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

Assistant Vice Chancellor: Wendee Shinsato
Senior Auditor: Jamarr Johnson