February 1, 2023

Dr. Saúl Jiménez-Sandoval, President
California State University, Fresno
5241 N. Maple Avenue
Fresno, CA 93740

Dear Dr. Jiménez-Sandoval:

Subject: Audit Report 22-52, Construction – Resnick Student Union, California State University, Fresno

We have completed an audit of the Resnick Student Union construction project as part of our 2022-2023 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*.

There were no reportable observations revealed during the review. The final audit report has been posted to Audit and Advisory Services’ website.

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
CONSTRUCTION

California State University, Fresno

Resnick Student Union

Audit Report 22-52
February 1, 2023
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, the operational, administrative, and financial controls for the Resnick Student Union as of December 9, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

There were no reportable observations revealed during the review.
GENERAL INFORMATION

BACKGROUND

In September 2019, the Board of Trustees (BOT) approved schematic plans for the Resnick Student Union project at a cost of $60,000,000, with funding from systemwide revenue bonds, a student union program reserve contribution of $4,000,000, and a donation from the Resnick Foundation.

In November 2018, the campus solicited project bids and selected McCarthy Building Companies, Inc., as the design-builder. The campus executed a design and construction agreement with McCarthy Building Companies, Inc., on March 25, 2019, at a cost of $51,995,840 and issued the first Notice to Proceed for the demolition phase on November 25, 2019. The final project cost after all change orders had been processed was $56,791,382. The campus filed the Notice of Completion on May 26, 2022.

The Resnick Student Union project is a new three-story building located at the center of the California State University, Fresno (Fresno State) campus overlooking the Memorial Court Fountain, Clock Tower, and Water Tower. The 84,000-square-foot building houses the Bank of America Bulldog Welcome Center and Leon S. Peters Event Plaza, a scenic outdoor amphitheater-style space. The second level of the building includes a reservation center, meeting rooms for Associated Students Inc. (ASI), the student union’s board of directors, as well as meeting spaces for student clubs and campus organizations. The third floor features student leadership spaces, the ASI executive suite and president’s office, and student involvement offices. The Wonderful Scholar Center, also located on the third floor, is a dedicated gathering space for Wonderful scholarship recipients currently enrolled at Fresno State who receive tutoring and advising support from college-success coaches. 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 Fresno State campus managed the Resnick Student Union project, and it chose the Design-Build delivery method. In this method, the design and construction aspects are contracted with a single design-builder 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
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 performed fieldwork from October 17, 2022, through December 9, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Resnick Student Union 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.
- 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
- Contract General Conditions for Design-Build Projects

AUDIT TEAM

Assistant Vice Chancellor: Wendee Shinsato
Senior Auditor: Jamarr Johnson