

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

March 4, 2024

Dr. Ming-Tung “Mike” Lee, President  
Sonoma State University  
1801 East Cotati Avenue  
Rohnert Park, CA 94928

Dear Dr. Lee:

**Subject: Audit Report 23-51, Construction – Stevenson Hall Renovation, Sonoma State University**

We have completed an audit of the *Stevenson Hall Renovation* construction project as part of our 2023-2024 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: Mildred García, Chancellor  
Yamilette Rodriguez, Chair, Committee on Audit  
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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# **CONSTRUCTION STEVENSON HALL RENOVATION**

**SONOMA STATE UNIVERSITY**

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**AUDIT REPORT 23-51  
MARCH 4, 2024**

## **EXECUTIVE SUMMARY**

### **AUDIT OBJECTIVES AND BACKGROUND**

In accordance with the fiscal year 2023/24 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed a construction audit of the Stevenson Hall Renovation project at Sonoma State University (SSU).

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 government regulations, Trustee policy, Office of the Chancellor (CO) directives, construction contract general conditions, and campus procedures.

Stevenson Hall, built in 1967, was the first and largest academic building on campus. The renovation project was planned to meet current building, accessibility, seismic, and life/fire safety codes, as well as address long-deferred maintenance needs. In May 2020, the schematic design for the Stevenson Hall Renovation project was approved by the associate vice chancellor of Capital Planning, Design and Construction under delegated authority from the Board of Trustees. The total project budget was \$90,780,000, with funding from campus-designated capital reserves and systemwide revenue bonds. The campus used the collaborative design-build delivery method for the project and executed a design and construction agreement with Truebeck Construction, Inc. in November 2020. The project was completed in December 2022. The three-story state-of-the-art academic facility houses the schools of Education, Social Sciences, and Business and Economics.

### **OVERALL 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 Stevenson Hall Renovation as of November 9, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

### **AUDIT SCOPE AND RESULTS**

In general, we found that construction operations were effective and complied with California State University (CSU) policies and procedures. In our review, we did not note any issues related to the core construction functions at SSU. Extensive campus personnel experience, coupled with CSU and campus policies, procedures, and forms, allowed the successful completion of the Stevenson Hall Renovation project. Evidence of oversight, such as required documents and approvals and correspondence between the campus and other regulatory agencies, and the ability to provide detailed project insights, were noted throughout audit fieldwork.

However, our review did note areas for improvement in the administration of change orders and project close-out. A summary of the observations noted in the report is presented in the table below. Further details are specified in the remainder of the report.

Area	Processes Reviewed	Audit Assessment
<b>General Environment</b>	Oversight of the construction function, including proper delegations of authority	<i>Effective – no reportable observations noted</i>
<b>Project Development and Design</b>	Plan reviews and approvals by regulatory agencies and others such as the State Fire Marshal, Division of State Architects, and CSU review boards, and permitting process	<i>Effective – no reportable observations noted</i>
<b>Bidding and Contracting</b>	Bid advertisements, contractor prequalification, proposal scoring, guaranteed maximum price (GMP) submittal reviews, contract execution, and subcontractor oversight	<i>Observation noted in maintaining a current listing of subcontractors</i>
<b>Bonding and Insurance</b>	Enrollment and adequate coverage of required insurance and performance and payment bonds	<i>Effective – no reportable observations noted</i>
<b>Construction Management and Accounting</b>	Effective management of overall project and project costs through accurate payment applications, change orders, allowances, and contingencies	<i>Observation noted in change order review and processing</i>
<b>Project Completion and Closeout</b>	Punch lists, project close-out requirements, final accounting of project costs, and liquidated damages (as applicable)	<i>Observation noted in final accounting of project costs</i>

We performed fieldwork from October 2, 2023, through November 9, 2023. The audit focused on procedures in effect during the planning and construction of the project and included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Stevenson Hall Renovation project are in place and operative. The review was limited to gaining reasonable assurance that essential elements of the construction program were in place and did not examine all aspects of the program.

For portions of the construction management and accounting and project completion and close-out areas noted above, we retained an outside contractor to perform a review of project costs. The purpose of the review was to verify that change orders, allowance, and contingency usage were compliant with the terms of the construction contract, and to review documentation supporting final project costs claimed by the collaborative design-builder.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. FINAL ACCOUNTING OF PROJECT COSTS

#### OBSERVATION

The collaborative design-builder (CDB) did not complete and submit a final cost report to the campus for the purpose of verifying costs and ensuring the accuracy of the final payment made to the CDB.

Specifically, we found that the CDB did not provide sufficient documentation demonstrating that the total cost of the project equaled or exceeded the final GMP in the construction agreement. This documentation should include, but not be limited to, all actual subcontractor costs, direct material and labor provided by the CDB, and a reconciliation of contractual fees paid by the campus.

Additionally, in our review of the final payment application, we noted that the total amount paid was less than the total contract amount by approximately \$114,000, due to unused costs relating to self-performed work. Although the campus and CDB had confirmed the accuracy of the final payment, a credit change order had not been processed to document this reduction in the contract obligation.

The submittal of a final accounting of project costs by the CDB assists the campus in identifying any errors and irregularities and decreases the risk that the campus payments will exceed actual construction costs (up to the GMP).

#### RECOMMENDATION

We recommend that the campus:

- a. Develop, communicate, and implement procedures relating to final payment and project close-out to ensure that a final accounting of costs is completed by the contractor and verified by the campus for future construction projects.
- b. Process a credit change order to reconcile the total contract obligation with total campus payments.

#### MANAGEMENT RESPONSE

We concur. The campus will:

- a. Develop, communicate, and implement procedures relating to final payment and project close-out to ensure that a final accounting of costs is completed by the contractor and verified by the campus for future construction projects.
- b. Process a credit change order to reconcile the total contract obligation with total campus payments.

Expected completion date: August 31, 2024

### 2. SUBCONTRACTOR DIRECTORY

#### OBSERVATION

A current and accurate list of subcontractors (list) was not maintained and submitted by the CDB to the construction administrator for review.

Specifically, there were four subcontractors whose payments were more than one-half percent (0.5%) of the CDB’s contract, or \$341,742, and were not included in the list. Payments to these subcontractors totaled about \$2.4 million.

According to CSU Policy, *Construction Management for Public Works Contracts*, the construction administrator is required to monitor the use of subcontractors, and the contractor is required to submit the list at the award of contract and with each payment request. This helps to ensure compliance with provisions of the *Subletting and Subcontracting Fair Practices Act* and increases the likelihood of the project being completed in a fair, transparent, and legal manner.

**RECOMMENDATION**

We recommend that the campus develop, communicate, and implement procedures to ensure that a current and accurate list of subcontractors is obtained to identify and address any risks relating to subcontractors.

<b>MANAGEMENT RESPONSE</b>
We concur. The campus will develop, communicate, and implement procedures to ensure that a current and accurate list of subcontractors is obtained to identify and address any risks relating to subcontractors.  Expected completion date: August 31, 2024

**3. CHANGE ORDER ADMINISTRATION**

**OBSERVATION**

The campus review of CDB and subcontractor change orders for the Stevenson Hall Renovation needed improvement.

The Stevenson Hall project used an owner-controlled insurance policy (OCIP) that covered the cost of both worker’s compensation and general liability insurance for the CDB and all subcontractors. In our review of five change orders, we found that labor-rate schedules provided for all but one subcontractor included OCIP-covered worker’s compensation insurance, resulting in duplicate charges to the campus. Additionally, for the change orders reviewed, the CDB did not provide hourly labor rate schedules for self-performed labor; therefore, we could not substantiate whether OCIP-covered insurances were included in the claimed costs. For the specific change orders reviewed, the total overcharge is estimated to be about \$4,176.

The change orders reviewed also included CDB general conditions staffing. We noted that certain costs claimed for general conditions staffing in the change order, such as for the principal and project executive, should have been classified as overhead and profit per the request for proposal (RFP) *Classification of Project Costs*, and should not have been directly charged to the project.

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

**RECOMMENDATION**

We recommend that the campus:

- a. Work with the CDB to reconcile the cost of the insurance charges included in change orders and determine whether the campus should pursue recovery of the incorrectly calculated costs, including subcontractor and CDB mark-up, document this determination, and, if applicable, document the resulting recovery.
- b. Review the costs claimed by the CDB for general conditions staffing to determine whether they were appropriate based on the RFP, determine whether the campus should pursue recovery of any costs, document this determination, and, if applicable, document the resulting recovery.
- c. Provide refresher training to relevant personnel on the change order review process, including obtaining and reviewing subcontractor and CDB hourly labor-rate worksheets to verify that the rates used are net of the insurances covered by OCIP, and to ensure that costs are correctly classified and reimbursable in accordance with the RFP *Classification of Project Costs*.

**MANAGEMENT RESPONSE**

We concur. The campus will:

- a. Work with the CDB to reconcile the cost of the insurance charges included in change orders and determine whether the campus should pursue recovery of the incorrectly calculated costs. The results of this work will be documented.
- b. Review the costs claimed by the CDB for general conditions staffing to determine whether they were appropriate based on the RFP, and determine whether the campus should pursue recovery of any costs. The results of this work will be documented.
- c. Provide refresher training to relevant personnel on the change order review process, including obtaining and reviewing subcontractor and CDB hourly labor-rate worksheets to verify that the rates used are net of the insurances covered by OCIP, and to ensure that costs are correctly classified and reimbursable in accordance with the RFP *Classification of Project Costs*.

Expected completion date: August 31, 2024

## GENERAL INFORMATION

### ADDITIONAL BACKGROUND

At SSU, construction projects require collaboration across multiple campus departments such as risk management and safety services, university budget, and financial services. However, the department of campus planning, design and construction within the division of Administration and Finance is primarily responsible for the programming, design, and construction of projects. For the Stevenson Hall Renovation, the campus chief planning officer and deputy campus building official was the project manager and oversaw the administrative and technical aspects of the project.

The campus opted for the collaborative design-build delivery method, in which the design and construction aspects are contracted with a single CDB who has full responsibility for finalizing and implementing a design that meets or exceeds CSU's performance expectations. The initial design and construction agreement with Truebeck Construction, the CDB, was executed in the amount of \$68,348,473, and the final contract value after all change orders had been processed was \$72,102,932.

The CDB 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 collaborative 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.

At the CSU, 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 systemwide policies and procedures; 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 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 systemwide policies and procedures; 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.

## 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
- CSU *Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development*
- CSU *Delegation of Capital Outlay Management Authority and Responsibility*
- CSU *Capital Outlay and Public Works Contracts*
- CSU *Professional Services for Campus Development*
- CSU *Project Plan Development for Major Capital Construction Projects*
- CSU *Construction Management for Public Works Contracts*
- CSU *Construction Management Project Administration Reference Manual*
- *Contract General Conditions for Collaborative Design-Build Projects*
- *Request for Proposal, Classification of Project Costs*

## AUDIT TEAM

Senior Audit Manager: Christina Chen

Senior Auditor: Carolyn Phu