

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

March 25, 2025

Dr. Tomás D. Morales, President  
California State University, San Bernardino  
5500 University Parkway  
San Bernardino, CA 92407

Dear Dr. Morales:

**Subject: Audit Report 24-52, Construction – Santos Manuel Student Union Expansion,  
California State University, San Bernardino**

We have completed an audit of the *Santos Manuel Student Union Expansion* construction project as part of our 2024-2025 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 university personnel over the course of this review.

Sincerely,



Vlad Marinescu  
Vice Chancellor and Chief Audit Officer

c: Mildred García, Chancellor  
Christopher Steinhauser, Chair, Committee on Audit  
Yammilette Rodriguez, Vice Chair, Committee on Audit

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# **SANTOS MANUEL STUDENT UNION EXPANSION**

**CALIFORNIA STATE UNIVERSITY,  
SAN BERNARDINO**

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**AUDIT REPORT 24-52  
MARCH 25, 2025**



## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND BACKGROUND

In accordance with the fiscal year 2024/25 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed a construction audit of the Santos Manuel Student Union Expansion (SMSUE) project at California State University, San Bernardino (CSUSB).

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 university procedures.

The Santos Manuel Student Union (SMSU) is located in the center of campus. The expansion project added SMSU North, a three-story, 120,000 square-foot building that includes student meeting and support centers; food service and retail space, including the Coyote bookstore; a multipurpose ballroom; an eight-lane bowling alley and game room; and a pub. The project also included interior renovations to the existing SMSU and the Commons. Interior renovations to the Commons included updates to building technologies, meeting rooms, and conversion of the cafeteria area to meeting rooms. Exterior landscape improvements were also completed.

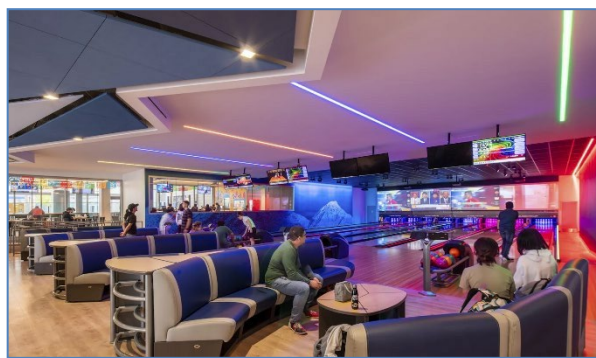
The university used the Construction Manager at Risk (CM at Risk) with Guaranteed Maximum Price (GMP) delivery method for the project and executed a \$68.6 million construction agreement with Hathaway Dinwiddie Construction Company in June 2019. The project was completed in March 2022.



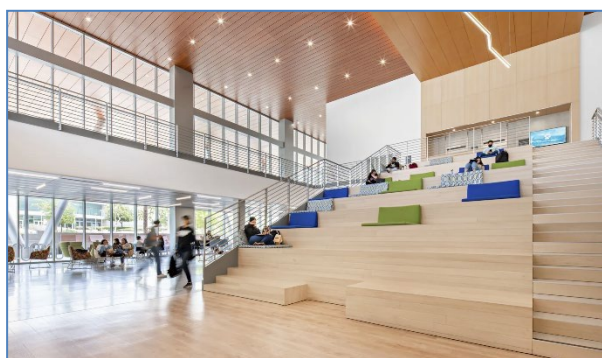
*Source: Hathaway Dinwiddie Construction Company, Project Construction Manager*



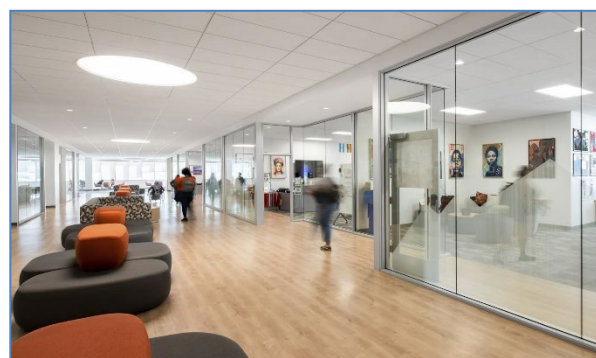
*SMSU - Exterior*



*Bowling Alley*



*Collaborative Meeting Spaces*



*Source: LPA, Inc., Project Architect*

## 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 SMSUE project as of November 15, 2024, 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 the university had an appropriate framework for administering construction projects. Clearly delineated roles and responsibilities, detailed project insights, and effective collaboration with external partners aided in the successful completion of the SMSUE project.

However, our review did note areas for improvement in delegations of authority, bidding and contracting, construction management, and project closeout. 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>Observation noted in delegations of authority</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 California State University (CSU) review boards, and permitting process	<i>Effective – no reportable observations noted</i>
<b>Bidding and Contracting</b>	Bid advertisements, contractor prequalification, proposal scoring, GMP submittal reviews, contract execution, and subcontractor oversight	<i>Observation noted in proposal evaluation process</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>Observations noted in change order review and payment 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 project close-out, including stop notice processing</i>

We performed fieldwork from September 30, 2024, through November 15, 2024. 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 SMSUE 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 construction manager.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. CLOSE-OUT ADMINISTRATION

#### OBSERVATION

Administration of project close-out requirements needed improvement.

In our review of close-out documents, we found that the project close-out checklist, which is designed to document that final inspections are conducted, required documents are finalized and obtained, and that the project is ready for close-out was not approved by the construction administrator. In addition, the accompanying certification of occupancy, completion, and release of retention form was not signed and approved by appropriate campus personnel in accordance with CSU regulations. We also found that early occupancy of the food venue area was not properly documented through a mutually executed change order signed by both the university and the CM. Rather, early occupancy was documented through field instructions.

In addition, we found that though the university used the required CPDC Global Settlement Change Order Template, the university had not consulted with systemwide Capital Planning, Design, and Construction when processing the global settlement change order, which documents the final payment amount authorized and contractor's release of claims.

Further, upon reviewing claims filed against the project, we found that one of the three stop notices processed by the university was submitted 138 days after the 90-day filing period. Management stated that the university took a collaborative approach with the CM and considered the stop notice valid to encourage resolution between the CM and its subcontractor. However, due to delays in close-out processes, including the release of stop notices, the university did not begin releasing retention until April 2023, 387 days after construction was completed. Public Contract Code section 7107 requires release of retention within 60 days of project completion, and not releasing funds within this timeline increases exposure to legal liability.

Properly administering the close-out of a construction project decreases the risks of incomplete documentation, unresolved contractual obligations, noncompliance with government regulations and CSU policy, and potential financial discrepancies.

#### RECOMMENDATION

We recommend that the university:

- a. Consult with systemwide CPDC relating to expectations for global settlements, including documentation expectations.
- b. Provide training to relevant personnel on close-out procedures addressing the issues noted above, including consultation with systemwide CPDC if exceptions to policy will be made in the processing of stop notices, to ensure consistency and compliance across all projects.

**MANAGEMENT RESPONSE**

We concur. Our campus will:

- a. Consult with systemwide CPDC relating to expectations for global settlements, including documentation expectations.
- b. Provide training to relevant personnel on close-out procedures addressing the issues noted above, including consultation with systemwide CPDC if exceptions to policy will be made in the processing of stop notices, to ensure consistency and compliance across all projects.

Estimated completion date: September 5, 2025

**2. CHANGE ORDER ADMINISTRATION****OBSERVATION**

The campus review of change orders needed improvement.

During fieldwork, we reviewed 35 change orders, as well as contingency and allowance use on the project, and we found that nine change orders and two instances of contingency and allowance use did not have adequate supporting documentation to substantiate \$145,631.18 in credits to the project and \$456,143.89 in project cost increases, for a total absolute value of \$601,775.07 in transactions without adequate supporting documentation. For these items, only a summary sheet of total labor, material, and equipment costs was provided; these summaries did not include detailed support including, but not limited to, an itemized breakdown of total hours, pay rates, materials, quantity, equipment, and rental hours. University management stated that they reviewed the costs and believed them to be reasonable, and that this amounted to only a small percentage of the overall project cost of \$81 million.

Additionally, we noted a few instances of approved change orders that contained indirect cost items that may have been covered in the base scope of work and/or the markup for overhead and profit. For example, project management, such as overseeing schedules, coordinating tasks, and managing resources, and safety-related expenses, such as implementing safety protocols, training, and equipment, were included as part of the CM's site management fee in the original contract provisions. If these costs were additional and eligible for inclusion in the change order, they should have been itemized as direct costs.

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

**RECOMMENDATION**

We recommend that the university develop, communicate, and implement enhanced procedures for reviewing change orders, including reviewing indirect costs that may have been covered in the base scope of work for appropriateness, to ensure that adequate supporting documentation is reviewed prior to approval and retained in the project file and all change order costs are appropriate.



**MANAGEMENT RESPONSE**

We concur. Our campus will develop, communicate, and implement enhanced procedures for reviewing change orders, including reviewing indirect costs that may have been covered in the base scope of work for appropriateness, to ensure that adequate supporting documentation is reviewed prior to approval and retained in the project file and all change order costs are appropriate.

Estimated completion date: September 5, 2025

**3. CONTRACTING AND PAYMENT PROCESSES****OBSERVATION**

Oversight in key contracting processes needed improvement.

When reviewing bid documentation, we found that one bidder was erroneously awarded three additional bonus points relating to an incentive for Disabled Veteran Business Enterprise participation. Though this error did not alter the overall ranking of bidders, it reduced the scoring gap between the first- and second-ranked bidders from 3.59 to 0.59 points after the scores were recalculated.

Further, we found that conflict-of-interest and confidentiality statements (COI forms) were not always completed timely by evaluation committee members. Two of five COI forms we reviewed were submitted in March 2017, one month after the statement of qualifications were due; however, no conflicts were noted on the forms.

Additionally, agreements and payment applications were not always approved by individuals with appropriate delegation of authority. We found that one service agreement valued at \$195,000 was signed by the directors of FPDC and procurement; however, these individuals were authorized to sign agreements only up to \$100,000. Similarly, during the review of payment applications, we noted that the construction administrator approved 37 of 38 applications ranging from \$100,000 to \$6.8 million. While the campus stated that construction administrator is the appropriate individual to approve these applications, the delegation of authority for this responsibility was not properly documented. Approvals for the 37 payment applications exceeded the amount of the administrator's formally delegated authority. Additionally, the university's formal delegation of authority provided to the construction administrator was limited to contracts, change orders, and field instructions, and did not include payment application approvals.

Adequate controls over contracting processes, including establishment of proper signature authority and dollar thresholds, ensures that awards are properly granted based on a consistent, fair, and transparent procurement process; contracts are appropriately executed; and payments are properly approved.

**RECOMMENDATION**

We recommend that the university:

- a. Provide reminders to relevant personnel to ensure that COI forms are completed prior to the start of the proposal evaluation process and awarded points are verified for accuracy during the proposal evaluation process.
- b. Evaluate current delegated authority for capital projects, update it as necessary to address the issues noted above, and communicate delegated authority through documentation and training.



**MANAGEMENT RESPONSE**

We concur. Our campus will:

- a. Provide reminders to relevant personnel to ensure that COI forms are completed prior to the start of the proposal evaluation process and awarded points are verified for accuracy during the proposal evaluation process.
- b. Evaluate current delegated authority for capital projects, update it as necessary to address the issues noted above, and communicate delegated authority through documentation and training.

Estimated completion date: September 5, 2025

## GENERAL INFORMATION

### ADDITIONAL BACKGROUND

At CSUSB, construction projects require collaboration across multiple university departments, such as risk management and environmental health and safety, university budget, and financial and administration services. The department of facilities planning, design, and construction (FPDC) within the division of Finance, Technology, and Operations is primarily responsible for the programming, design, and construction of projects. For the SMSUE project, a university project manager, together with the executive director of FPDC, oversaw the administrative and technical aspects of the project.

The university opted for the CM at Risk with GMP delivery method, in which the construction management firm is chosen by a competitive bidding process to provide all or significant portions of design and construction administration 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 within a stipulated time frame and budget. Furthermore, there is a potential for cost savings should the project be completed below the GMP. The initial agreement with Hathaway Dinwiddie Construction Company, the CM at Risk, was executed in the amount of \$68,614,000, and the final contract value after all change orders had been processed was \$81,628,833.

At the CSU, university presidents have been delegated the authority to directly manage state- and non-state-funded capital outlay projects. The CO issues this delegated authority to the university subject to its compliance with the capital outlay certification procedure. To comply, the university 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 CO must approve the request. The university president is responsible for exercising delegated authority in compliance with applicable statutes, regulations, and BOT policies; the university manages capital projects via a process consistent with systemwide policies and procedures; and the university has in place appropriate internal controls and processes to ensure that responsibilities are carried out in a manner consistent with the university capital outlay management plan submitted with the request for delegated authority.

The university capital outlay management plan defines the university organizational and operational structure and expenditure authority and serves as the university policies and procedures for the administration of construction activities. Updated plans are to be submitted when university 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 university negligence, in which case the CRB may recommend that the university be placed on probation. The CRB may ultimately recommend that certification be withdrawn if identified operational/management deficiencies are not remedied.

Each university president (or designee) also has been delegated authority to make all professional appointments relative to capital outlay projects and university 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, university 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 university 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, *The State Leadership Accountability Act*
- *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 Construction Manager at Risk with Guaranteed Maximum Price Projects*
- *Request for Proposal, Classification of Project Costs*

## AUDIT TEAM

Senior Audit Manager: Christina Chen

Senior Auditors: Carolyn Phu and Marlon Perez