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December 6, 2018

Dr. Tomás D. Morales, President
California State University, San Bernardino
5500 University Parkway
San Bernardino, CA 92407-2393

Dear Dr. Morales:

**Subject: Audit Report 18-64, Student Housing and Dining Commons,
California State University, San Bernardino**

We have completed an audit of the *Student Housing and Dining Commons* construction project as part of our 2018 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 has been 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,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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CONSTRUCTION

**California State University,
San Bernardino**

Student Housing and Dining Commons

Audit Report 18-64
November 15, 2018

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls over construction activities; identify cost recovery opportunities; and ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, construction contract general conditions, and campus procedures.

CONCLUSION

We found the control environment for the areas reviewed to be effective.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for the Student Housing and Dining Commons project as of October 19, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met. Our review did identify an opportunity for improvement in the application of allowance reimbursements to the general contractor.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. ALLOWANCES

OBSERVATION

Administration of allowance usage for the Student Housing and Dining Commons project needed improvement.

We reviewed two allowance requests in which the subcontractor's direct costs exceeded the designated allowance amounts. In both instances, the general contractor's mark-up was incorrectly applied to the subcontractors' direct costs because the allowance amounts were not first deducted from the subcontractors' direct costs. This resulted in increases in the general contractor's markup of \$2,108 and \$5,276, respectively.

Proper review of construction manager mark-ups decreases the risk that errors and irregularities will not be detected.

RECOMMENDATION

We recommend that the campus pursue recovery of the \$7,384 in inflated mark-up costs charged by the construction manager and reiterate to staff that construction manager mark-ups should not be applied to allowances.

MANAGEMENT RESPONSE

We concur with the audit recommendation. Our action plan is to pursue recovery of the \$7,384 in inflated mark-up costs charged by the construction manager and reiterate to staff that construction manager mark-ups should not be applied to allowances.

Our anticipated date for full implementation of this recommendation is February 28, 2019.

GENERAL INFORMATION

BACKGROUND

In November 2015, the Board of Trustees (BOT) approved schematic plans for the Student Housing and Dining Commons project at a cost of \$93,962,000, with funding from housing-program-designated reserves and systemwide revenue bonds.

In June 2015, the campus executed an agreement with the architectural firm Solomon Cordwell Buenz for services related and incidental to the design and construction of the Student Housing and Dining Commons 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 October 2016, the campus executed a Guaranteed Maximum Price (GMP) agreement with the CM for construction phase services at a construction cost of \$74,272,000 and issued a Notice to Proceed on October 7, 2016, with a completion date of March 30, 2018. The campus filed a Notice of Completion on August 15, 2018.

The Student Housing and Dining Commons project is a new 68,470-square-foot four-story residence hall and a 50,296-square-foot dining facility located at the southeast area of the CSUSB campus. The housing portion of the project consists of more than 400 beds for incoming freshmen. The design of the building provides for double-occupancy rooms, shared bathroom facilities, and gender-neutral bathroom facilities on each floor. The ground floor of the north wing houses the campus honors program and an administrative office suite for housing and residential education. The ground floor of the south wing houses resident staff apartments and communal space, including a large multipurpose room with kitchen, recreation, and laundry facilities. The dining portion of the project consists of both self-serve and full-service food stations, as well as three dining rooms that can be used for general or private dining. The facility includes 650 seats in the interior dining area and a 50-seat mezzanine that provides a view of the San Bernardino mountain range to the north. Unlike a traditional cafeteria, the facility features a new approach to dining, with smaller open kitchens located throughout the dining area, each of which offers a different concept or specialty cuisine. Sustainable features of the project include extensive use of natural light and ventilation using large, low-emission glazed operable windows in each room and energy-efficient LED lighting with day-lighting controls and occupancy sensors. The project was designed to achieve 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 CSUSB campus managed the Student Housing and Dining Commons 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

We visited the CSUSB campus and the offices of the CM and selected subcontractors from September 10, 2018, through October 19, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Student Housing and Dining Commons project were 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.
- Review and approval of project design, budget, and funding.
- Professional services agreements and any extra services changes.

- Administration of the bid and award process.
- Contract execution and required contract bonds and insurance.
- 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 was designed to provide a review of key operational, administrative, and financial controls, including interviews, walkthroughs, and detailed testing on a limited number of CM and selected subcontractor transactions. Our review did not examine all aspects of financial controls or encompass all financial transactions for every contractor and subcontractor. In addition, as final payment on the contract had not yet been processed, we did not review the project final reconciliation, release of retention, or any other close-out processes taking place after our fieldwork was completed.

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

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Senior Auditor: Jamarr Johnson