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July 1, 2015

Dr. Horace Mitchell, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311-1099

Dear Dr. Mitchell:

Subject: Audit Report 15-09, Art Center and Satellite Plant, California State University, Bakersfield

We have completed an audit of the *Art Center and Satellite Plant* construction project as part of our 2015 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 the Office of 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,
Bakersfield**

ART CENTER AND SATELLITE PLANT

Audit Report 15-09
May 7, 2015

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of construction management policies and procedures related to the fiscal, operational, and administrative controls over construction activities, determine the adequacy of internal controls and processes, identify cost recovery opportunities, and ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect for the Art Center and Satellite project were sufficient to meet the objectives of this audit. Our audit procedures did identify an opportunity to improve control over Group II equipment.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. GROUP II EQUIPMENT

OBSERVATION

Group II equipment purchased for the Art Center and Satellite Plant project was not always tagged and recorded in property inventory records.

Specifically, we found that four items of non-capital equipment worth a total of \$10,766, including two welders, a power saw, and a plasma cutter, were neither tagged with a unique identification number nor recorded in property inventory records, as required by the California State University, Bakersfield (CSUB) *Asset Management Policy*.

Insufficient control over equipment increases the risk of theft, loss, or unauthorized use of state property and misstated property records.

RECOMMENDATION

We recommend that the campus develop a process to ensure that all project Group II equipment is tagged with a unique identification number and recorded in property inventory records.

MANAGEMENT RESPONSE

The campus will develop a process that ensures all Group II equipment is tagged with a unique identification number and recorded in property inventory records. The campus will implement this recommendation by August 31, 2015.

GENERAL INFORMATION

BACKGROUND

In May 2008, the Board of Trustees (BOT) approved schematic plans for the CSUB Art Center and Satellite Plant project at a cost of \$17,115,000, with funding from general obligation bonds and the University Capital Outlay Fund Bond of 2006.

In February 2008, the campus executed an agreement with the architectural firm of PS2 Engineering, for services related and incidental to the design and construction of the Art Center and Satellite Plant project. It also executed an agreement with the construction manager (CM), Rudolph and Sletten, Inc., for pre-construction services that included design and bid phase services. In May 2013, the campus executed a guaranteed maximum price (GMP) agreement with the CM for construction phase services, at a construction cost of \$14,822,811, and issued a Notice to Proceed on May 27, 2013, with a projected completion date of August 20, 2014. The State Fire Marshal granted a Certificate of Occupancy on May 15, 2014, and the campus filed a Notice of Completion on May 28, 2014.

The Art Center and Satellite Plant project consists of three components – a new Art Center located in the northwest sector of the campus, a new Satellite Plant located west of the Child Care Center, and a sewer line extension at the south end of campus. The Art Center provides 12,000 square feet of new art labs for fine arts students and includes a ceramics studio, sculpture studio, drawing/design studio, digital arts studio, and print-making studio. The Satellite Plant consists of a new 600-ton chiller, cooling tower, and 600,000-gallon thermal storage tank and will provide enhanced and expanded heating and cooling capacity as the campus expands over the next five to ten years. The sewer extension includes a 15-foot sewer line between Camino Media and Ming Avenue along Scarlet Oak Boulevard. The project was designed and built to achieve a Leadership in Energy and Environmental Design (LEED) silver rating. 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 CSUB campus managed the Art Center and Satellite Plant project, and it chose the Construction Manager at Risk (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 delegated authority to manage directly 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 aforementioned certification procedure includes submission of a capital outlay management plan, which 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.

For those campuses that are not certified, the chancellor's office may execute a Memorandum of Delegation for a capital outlay project, which delegates administration, including construction management, to the campus. The CPDC construction management unit may also perform construction administration and management.

Each campus president (or designee) also has 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 California State University (CSU) *Construction Management Procedures Manual*, which contains the CSU construction management policies and procedures that apply to a project.

SCOPE

We visited the CSUB campus and the offices of the construction manager and selected subcontractors from January 12, 2015, through February 13, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls for the Art Center and Satellite Plant project were in place and operative.

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.
- Subcontractors and subcontractor substitutions.
- Contract and service agreement payment processing.

- Procurement of major equipment and materials.
- Performance of required inspections and tests.
- Review, approval, pricing, and tracking of change orders.
- Administration of subcontractor labor rates and associated burden.
- Construction management and overall project cost accounting and reporting.
- Construction allowances and contingency balances.

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 and administrative controls, which included detailed testing on a limited number of construction manager and selected 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 CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. 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:

- Executive Order (EO) 672, *Delegation of Capital Outlay Management Authority and Responsibility*
- EO 666, *Delegation of Professional Appointments Related to Capital Outlay Projects and Campus Physical Development*
- ICSUAM §9000 through §9005, *Capital Outlay and Public Works Contracts*
- ICSUAM §9200 through §9212, *Professional Services for Campus Development*
- ICSUAM §9700 through §9843, *Construction Management for Public Works Contracts*
- CSU *Construction Management Procedures Manual*
- CSU *Administration of University Property - Equipment Procedures*
- *Contract General Conditions for CM at Risk with Guaranteed Maximum Price Projects*
- 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
- CSUB *Asset Management Policy*

AUDIT TEAM

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 Senior Auditor: Jamarr Johnson