

Office of Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu

January 13, 2016

Rear Admiral Thomas A. Cropper, President
California State University Maritime Academy
200 Maritime Academy Drive
Vallejo, CA 94590

Dear RADM Cropper:

**Subject: Audit Report 15-12, *Physical Education Replacement Facility,*
California State University Maritime Academy**

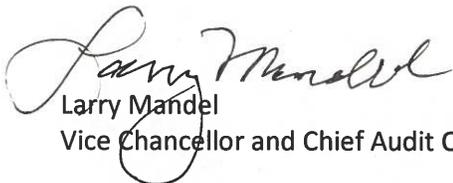
We have completed an audit of the *Physical Education Replacement Facility* construction project as part of our 2015 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendation. 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

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus



CONSTRUCTION

California State University Maritime Academy

Physical Education Replacement Facility

Audit Report 15-12

October 26, 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 Physical Education Replacement Facility project were sufficient to meet the objectives of this audit. Our audit procedures did identify an opportunity to improve controls 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 Physical Education Replacement Facility project was not always tagged and could not always be located.

Specifically, we found that one piece of capitalized equipment with an acquisition cost of \$6,026 was not tagged with a unique identification number, and a 42-inch flat-screen television worth \$350 could not be located.

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:

- a. Develop a process that ensures that all Group II equipment is tagged, including sensitive or high-risk equipment and capitalized property with an acquisition cost of more than \$5,000 per individual item, with a unique identification number.
- b. Promptly locate the missing television, or adjust the property records accordingly.

MANAGEMENT RESPONSE

- a. The campus will ensure that all Group II equipment is tagged, including sensitive or high-risk equipment and capitalized property with an acquisition cost of more than \$5,000 per individual item, with a unique identification number.

Anticipated completion date is January 2016.

- b. The missing asset was reported lost and the property record has been updated.

GENERAL INFORMATION

BACKGROUND

In November 2011, the Board of Trustees (BOT) approved schematic plans for the Physical Education Replacement Facility project at a cost of \$36,037,000, with funding from lease revenue bonds approved in fiscal year 2008/09.

In May 2011, the campus executed an agreement with the architectural firm WRNS Studios, LLP, for services related and incidental to the design and construction of the Physical Education Replacement Facility project. It also executed an agreement with the construction manager (CM), Gilbane Building Company, for pre-construction services that included design and bid phase services. In March 2013, the campus executed a guaranteed maximum price (GMP) agreement with the CM for construction phase services, at a construction cost of \$29,632,876, and issued a Notice to Proceed on March 27, 2013, with a projected completion date of September 18, 2014. The State Fire Marshal granted a Certificate of Occupancy on January 26, 2015, and the campus filed a Notice of Completion on January 30, 2015.

The Physical Education Replacement Facility project is a 76,000-square-foot physical education and aquatics center at the far north edge of the California State University Maritime Academy (Cal Maritime) campus. The facility includes a competition-level NCAA gymnasium; an Olympic-size pool for academics, survival training, athletics, and recreation; and a variety of training, administrative, and support areas. The first level houses training spaces, with the main gym, pool deck, multipurpose room, and weight and wellness rooms adjacent to a central locker area. The second level includes primarily administrative, faculty, and support spaces. The project is seeking a Leadership in Energy and Environmental Design (LEED) gold 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.

Capital Planning, Design and Construction (CPDC) at the Office of the Chancellor managed the Physical Education Replacement Facility 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 CM, 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 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 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 Cal Maritime campus and the offices of the CM and selected subcontractors from June 22, 2015, through July 24, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls for the Physical Education Replacement Facility 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 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.

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 §9230 through §9237, *Project Plan Development for Major Capital Construction Projects*
- 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

AUDIT TEAM

Senior Director: Janice Mirza
Senior Auditor: Jamarr Johnson