August 3, 2018

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840

Dear Dr. Conoley:

Subject: Audit Report 18-62, Parking Lot 7 and Psychology Brain Lab Renovations, California State University, Long Beach

We have completed an audit of Parking Lot 7 and Psychology Brain Lab Renovations 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
CONSTRUCTION

California State University,
Long Beach

Parking Lot 7 and Psychology Brain Lab
Renovations

Audit Report 18-62
July 13, 2018
EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of construction management policies and procedures related to the operational, administrative, and financial 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

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 Parking Lot 7 and Psychology Brain Lab Renovation projects as of May 10, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met. However, the review did identify an opportunity for improvement in the campus process for issuing notices to proceed.

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

OBSERVATION

The notice to proceed (NTP) was issued prior to the construction agreement being fully executed by the office of general counsel and prior to performance and payment bonds being obtained for both projects reviewed.

Properly executing construction agreements prior to issuing the NTP protects the university and the CSU with regard to financial and legal obligations.

RECOMMENDATION

We recommend that the campus remind appropriate construction personnel that the NTP should not be issued until construction agreements are fully executed and payment and performance bonds are obtained.

MANAGEMENT RESPONSE

We concur. The campus will remind appropriate construction personnel that the NTP should not be issued until construction agreements are fully executed and payment and performance bonds are obtained. Corrective action on this item will be completed by August 22, 2018.
GENERAL INFORMATION

BACKGROUND

In January 2016, the Board of Trustees (BOT) approved schematic plans for the Parking Lot 7 Renovation project at a cost of $5,000,000, with funding from designated parking reserves. The Psychology Brain Lab Renovation project was approved by the BOT under delegated authority. Funding for the Psychology Brain Lab Renovation came from campus reserve funding from various groups on campus, as well as from donor funding.

In October 2015, the campus executed a TOCA master enabling service agreement with the general contractor Swinerton Builders. The Parking Lot 7 Renovation and Psychology Brain Lab Renovation projects were performed under this TOCA agreement. The campus executed a construction services agreement for the Parking Lot 7 Renovation project with construction costs of $4,577,791 on May 25, 2016. The campus executed a construction services agreement for the Psychology Brain Lab Renovation project with construction costs of $2,288,416 on December 16, 2016. The campus filed a notice of completion on January 25, 2017, for the Parking Lot 7 Renovation project, and on December 27, 2017, for the Psychology Brain Lab Renovation project.

The Parking Lot 7 Renovation project consisted of a newly designed and enlarged parking lot featuring 431 stalls, which provided an additional 152 stalls over the previous parking lot. The entrance at the south campus turnaround was also reconfigured, and a small parking lot just south of Lot 7 was added to help mitigate traffic at Seventh Street and East Campus Drive, where cars often backed up at the traffic light. In addition to the new stalls, the campus enhanced accessibility for individuals needing disabled parking in Lot 7. Access on sidewalks was improved, and the new south campus turnaround now has one of the campus’ true fully code-compliant disabled drop-off zones.

The CSULB campus managed the Parking Lot 7 Renovation and Psychology Brain Lab Renovation projects, and it chose the TOCA delivery method. In this method, the campus selects a service provider in a two-phase process, and establishes a master enabling agreement to deliver multiple projects under a two-year contract. Each project total cost must be under $5 million, and the total cost of all projects completed cannot be over $20 million. A separate task order and construction agreement are executed for each individual project. Fees for TOCA projects can be based on hourly rates, or can be based on a percentage of direct construction costs using a construction manager at risk or collaborative design-build delivery method. This delivery method provides additional efficiencies in bidding small major capital projects.

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 CSULB campus and the offices of the general contractor and selected subcontractors from April 2, 2018, through May 10, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls for the Parking Lot 7 Renovation and Psychology Brain Lab Renovation projects were in place and operative.

Specifically, we reviewed and tested:

- Delegation of construction management authority.
- Review and approval of project design, budget, and funding.
- 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.
- 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, administrative, and financial controls, which included detailed testing on a limited number of general contractor 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 Project Administration Reference Manual
• *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 Audit Manager: Wendee Shinsato  
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