CAPITAL PROGRAMS

CONTRACT MANAGEMENT

AUDIT REPORT #23-2101

Audit & Advisory Services

August 2023

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Background

In accordance with the Campus fiscal year 2022-23 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and business practices over key contract management functions within the UCLA Capital Programs department.

The Capital Programs Contracts Administration Office administers the design agreement and construction contract process for the UCLA campus, including the bidding of construction contracts. In accordance with the California Public Contract Code (PCC) and University of California (UC) Facilities Manual, UCLA Capital Programs conducts the following:

* Formal competitive bidding for construction projects above $640,000 via public advertisement;
* Informal competitive bidding for construction projects valued between $50,000 and $640,000, and;
* Negotiated contracting for construction projects valued at less than $50,000.

The primary objective of the Contracts Administration Office is to help ensure that the procurement of all construction-related services conform to the PCC and UC Facilities Manual. Although some campus departments, such as Facilities Management, Housing & Hospitality Services, and the UCLA Medical Center, have delegated authority to conduct project management activities for construction projects up to their respective delegation limits, the bid and award of all construction contracts is managed by the Contracts Administration Office.

Purpose and Scope

The primary purpose of the review was to ensure that Capital Programs’ internal controls and procedures related to its contract management processes are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University requirements was also evaluated. The scope of the audit focused on the following areas:

* Bidding and Contracts Administration
* Licenses, Insurance, and Bonds

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests of records, and other auditing procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, Capital Programs’ internal controls and procedures related to its contract management processes are generally conducive to accomplishing the department’s business objectives.

A&AS identified one issue relating to a $1.7 million construction contract executed on October 12, 2021, that did not have the required Builder’s Risk Insurance (BRI), which covers loss or damage to property under construction not caused by the contractor’s negligence. A&AS verified that BRI coverage was subsequently obtained by Contracts Administration under the University’s Master Builder’s Risk program on June 12, 2023. Contracts Administration has developed a new control log and error check process to help ensure that BRI applications are submitted at the time of Contract Award on a go-forward basis. Based on our review of additional supporting documentation provided by Contracts Administration, the issue has been remediated. No other significant control issues were identified in the audit.

Audit Results

### Bidding and Contracts Administration

Construction Contracts

The Contracts Administration Office works with project managers to ensure that construction contracts are competitively bid and awarded in accordance with the California Public Contract and UC Facilities Manual. The PCC requires formal competitive bidding for projects with estimated contract sums over $640,000 and permits informal competitive bidding for projects between $50,000 and $640,000. For formal competitive bidding, the University is required to (1) publicly advertise for bids, (2) receive sealed bids on or before the deadline, (3) publicly open all bids, (4) prepare a bid summary of all bids, and (5) award the contract to the lowest responsible bidder submitting a responsive bid, or reject all bids. For informal competitive bidding, the University is required to (1) request bids from at least three qualified bidders, (2) prepare a bid summary of all bids, and (3) award the contract to the lowest responsible bidder submitting a responsive bid, or reject all bids.

For a sample of 10 construction contracts executed during fiscal year 2021-22, A&AS reviewed project file documentation maintained in the Capital Programs SharePoint site to ensure that contractors were evaluated and selected in accordance with the UC Facilities Manual and University procedures. Specifically, A&AS verified the following:

* The Project Manager completed the questionnaire to initiate development of the bidding documents, which was approved by Contracts Administration.
* Bidders completed required documents prior to bid submission (e.g., prequalification questionnaires, bid documents).
* The appropriate bidding method was used to select the contractor (i.e., formal competitive bidding, informal competitive bidding).
* If formal competitive bidding was used, (1) an Advertisement for Bids was publicly advertised, (2) bidders attended the mandatory pre-bid conference and job walk, and (3) bids were received by established deadlines and were publicly opened.
* If informal competitive bidding was used, bids were requested from at least three qualified bidders.
* A bid summary was prepared for all bids received and the lowest responsible bidder submitting a responsive bid was selected.
* Contract agreement and other required documents (e.g., Notice of Selection, Recommendation for Award of Contractor, Notice to Proceed) were properly completed and signed by the appropriate UCLA authority and/or Contractor.

There were no significant control weaknesses noted in this area.

Bid Protests

Per UC Facilities Manual, Volume 5, Chapter 9 “Bid Protests,” any person or entity may file a protest related to the selection of a bidder by the University for the award of a contract. For all four bid protests filed during fiscal year 2021-22, A&AS obtained and reviewed supporting documentation for each bid protest to verify adherence with UC Facilities Manual requirements. Specifically, A&AS verified that: (1) bid protests were filed in a timely manner by the Contractor and stated specific reasons and facts as to why the protest was filed, and (2) a written decision was issued by the University within 15 days of bid protest and stated the reasons for the action taken. For the four bid protests that A&AS reviewed, the University responded to each protest with a denial of protest decision. Each of the four denial decisions was accepted by the protestor.

There were no significant control weaknesses noted in this area.

### Licenses, Insurance, and Bonds

Construction projects require various types of insurance coverage depending upon the costs and type of construction project. General Liability, Automobile Liability, and Workers’ Compensation insurance are required for all projects. Projects involving hazardous materials also require Contractors Pollution Liability insurance. Builder’s Risk Insurance is required for all projects greater than $300,000, and all projects greater than $25 million are required to obtain coverage through the University Controlled Insurance Program. Additionally, bid, payment, and performance bonds are required for all projects, with the bond amount based upon project costs. Further, all contractors must have active licenses, as required in the Advertisement for Bids, at the time the bid is submitted.

For a sample of 10 construction contracts executed during fiscal year 2021-22, A&AS reviewed certificates of insurance and bond documents to verify that required insurances and bonds were held by the contractor to cover the projects. Additionally, A&AS reviewed licensing information to ensure that the contractors held the appropriate license(s) required for the construction project and that the license was active per the California Contractors State License Board (CSLB) website at the time of prequalification/bid.

Of the 10 construction projects that A&AS reviewed during audit testing, there was a $1.7 million construction contract executed on October 12, 2021 that did not have Builder’s Risk Insurance (BRI), which covers loss or damage to property under construction not caused by the contractor’s negligence, for the entire span of the construction project. UCLA Contracts Administration indicated that the BRI application for this project was not submitted at the time of award; however, BRI coverage was subsequently obtained under the University’s Master Builder’s Risk program on June 12, 2023. To help ensure BRI applications are submitted at the time of contract award on a go-forward basis, Contract Administration has developed a “BRI Application Submitted” log which can be viewed on all construction contract profiles. This log will require entry of the date when the BRI application is submitted. An error check process has also been developed that sends an email to Contract Administration staff if a date has been entered for “Agreement Executed” (line 210) but a BRI Application date (line 205) has not been entered. Based on our review of additional supporting documentation provided by Contracts Administration personnel, the issue has been remediated with no further recommendations for this area.

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