UNIVERSITY OF CALIFORNIA, DAVIS
AUDIT & MANAGEMENT ADVISORY SERVICES

Design and Construction Management, Finance, Operations and Administration
Construction
Audit and Management Advisory Services Project #16-04

March 2016

Fieldwork Performed by:
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Approved by:
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Background, Purpose and Scope

As part of the fiscal year (FY) 2016 audit plan, Audit and Management Advisory Services (AMAS) performed a limited scope construction audit on the UC Davis (UCD) campus as part of a broader system-wide construction audit effort. Because AMAS had previously performed a comprehensive construction audit as part of the FY 2015 audit plan (AMAS project #15-04), the scope of this project was limited to:

- Obtaining data regarding UCD campus construction activities during FYs 2013 through 2015 to inform the system-wide audit effort (Attachment A), and
- Identifying major construction projects funded all or in part by restricted funding sources such as extramural awards, and reviewing associated procedures and controls for monitoring compliance with associated funding restrictions.

In order to conduct our review, we obtained data regarding awarded, active and substantially completed construction projects. We also interviewed or submitted questionnaires to personnel who have a role in addressing compliance requirements when extramural awards are used to fund construction projects. Finally, we selected one project, the Primate Center (CNPRC) Cage Washing Facility, financed in part by grant funding from the National Institute of Health (NIH), to use as a case study in understanding the procedures and controls for monitoring compliance with funding restrictions. In the course of our review, we obtained information and input from Capital Space Planning (CSP), Design and Construction Management (DCM), Sponsored Programs (SPO), Capital Asset Accounting (CAA), Contract and Grant Accounting (CAG), and the CNPRC.

Conclusions

DMC management and staff continue to contribute towards creating a distinguished campus by transforming existing facilities and by delivering state-of-the-art capital improvement projects. Since the construction audit conducted in FY 2015, DCM has implemented many of the agreed upon actions designed to enhance processes and practices within DCM. Opportunities still exist to clarify roles and responsibilities associated with identification and monitoring of funding restrictions for construction projects paid for all or in part from restricted sources such as grants.

Our observations and recommendations are presented in the body of this report, along with corresponding management corrective actions.
I. OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT CORRECTIVE ACTIONS

A. Funding Restrictions

Roles and responsibilities associated with identification and monitoring of funding restrictions are not clearly delineated between all stakeholders.

Currently, there is a lack of clarity between DCM, other business units with a role in the construction process, and DCM clients, as to who is monitoring compliance in instances where construction projects are funded by restricted sources such as grant agreements. Our interviews with DCM, CAA, CAG and SPO indicate there may be an assumption by DCM that these units who regularly have a role in the process are providing more oversight for compliance with funding restrictions than is actually occurring. Additionally, our interviews with DCM indicate that they place reliance on their client who has secured the funding to articulate the restrictions and assist in monitoring compliance with construction related requirements. Conversely, our discussion with CNPRC, a major DCM client who often funds construction from grant agreements, indicates CNPRC views DCM as their general contractor and “agent” and are relying on them to monitor compliance.

Without a defined policy and process that clearly assigns responsibility for monitoring funding restrictions, the roles and expectations surrounding this area are a potential source of misunderstanding for DCM and its clients. Additionally, the University could be placed in a vulnerable position should there be a failure to comply with a funding restriction. This could result in the University either being cited/fined or having to return the funding to the outside agency.

In order to hold individuals accountable for ensuring compliance with funding restrictions during the construction process, there must be a clear assignment of responsibility.

Recommendations

1. DCM should engage with other business units involved in the solicitation of funding, accounting for, and ongoing management of, construction projects financed all or in part by restricted funding sources to ensure responsibilities for compliance with funding restrictions are assigned to the unit(s) having the greatest expertise and skill set to ensure compliance, and that those assignments are clearly delineated and understood.

Management Corrective Action

a. DCM will convene a discussion with all units involved on an ongoing basis with major capital improvement projects (CSP, CAA, CAG and SPO) to clarify the process and assignment of responsibility for communicating, monitoring and assuring compliance with funding restrictions by 8-15-16.
b. DCM will create a template Service Level Agreement or comparable document that can be used for projects where restricted funding such as grants will be utilized. The document will articulate the mutual understanding of DCM and their client regarding standard agency construction related restrictions as well as project specific restrictions, and assign responsibility for monitoring compliance with the restrictions. The template will be created by 8-15-16 and used on future projects, as applicable.

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<table>
<thead>
<tr>
<th>Project Name</th>
<th>Project #</th>
<th>Type of Contract</th>
<th>Best Value (Y/N)</th>
<th>Original Contract Amount</th>
<th>Close Out Amount</th>
<th>Total Change Order</th>
<th>Change Orders as % of Original Contract</th>
<th>Const. Start Date</th>
<th>Target Substantial Completion Date</th>
<th>Actual Substantial Completion Date</th>
<th>Delay or early completion (Days)</th>
<th>SCOPE Changes?</th>
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<td>UC Davis Smart Lighting Initiative Phase 2</td>
<td>9521700</td>
<td>Design Build</td>
<td>N</td>
<td>$ 5,688,474</td>
<td>$ 8,188,694</td>
<td>$ 2,500,221</td>
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<td>9/14/2014</td>
<td>2/24/2015</td>
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<td>Scope increases mandated by campus leadership after new grant funding received</td>
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<td>CNPRC Respiratory Disease Center</td>
<td>9518200</td>
<td>Long Form (lump Sum)</td>
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<td>$ 14,589,000</td>
<td>(225,050)</td>
<td>-1.52%</td>
<td>6/5/2012</td>
<td>12/5/2013</td>
<td>8/5/2014</td>
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<td>Tercero Student Housing Phase 3</td>
<td>9518000</td>
<td>Design Build</td>
<td>N</td>
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<td>(842,044)</td>
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<td>Vet Med 3B</td>
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<td>Tercero Student Housing Phase 3 - Demolition, Abatement and Utility Relocation</td>
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