

RIVERSIDE: AUDIT & ADVISORY SERVICES

July 8, 2016

To: Robert Gayle, Associate Vice Chancellor / Campus Architect
Architects & Engineers

Subject: Internal Audit of Construction

Ref: Audit Report Number R2016-12

We have completed an audit of Construction in accordance with the University of California, Riverside Audit Plan. Our report is attached for your review.

We appreciate the cooperation and assistance provided by your division. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore
Director

xc: UCR Audit Committee Members
Associate Vice Chancellor Carlson
Director Artman
Interim Assistant Director Long

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2016-12

INTERNAL AUDIT OF CONSTRUCTION

JULY 2016

Approved by:

Noahn Montemayor
Principal Auditor

Rodolfo L. Jeturian, Jr.
Assistant Director

Gregory Moore
Director

**UC RIVERSIDE
INTERNAL AUDIT OF CONSTRUCTION
INTERNAL AUDIT REPORT R2016-12
JULY 2016**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the purpose and scope of the audit, it is our opinion that, overall, construction management policies and procedures and internal controls and processes related to the administration of construction activities – specifically, the bid and award process, participation in the University Controlled Insurance Program, change order execution, and compliance with funding requirements – are operating satisfactorily and generally in compliance with applicable University policies and procedures.

We observed an area that needs improvement to strengthen internal controls and/or effect compliance with University policy.

Architects & Engineers (A&E) has not retained adequate and appropriate records of contractor prequalification evaluations and bid opening due diligence procedures performed.

Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

University of California (UC) Riverside Audit & Advisory Services (A&AS), as part of its Audit Plan, performed an audit of construction management activities to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations, and adequacy of certain internal controls. This audit was performed at all UC campuses using a standard systemwide audit program developed under the direction of the University of California Office of the President (UCOP) Office of Ethics, Compliance and Audit Services.

B. BACKGROUND

The University operates an extensive design, construction, and renovation program. The University makes a substantial investment in each capital project and has instituted policies and procedures to guide project construction.

The UC Facilities Manual (FM) provides easy access to important policies, procedures, and guidelines for facilities management and operation, including construction contracting, construction documents, bidding, and construction administration. Each Campus within the UC System is encouraged to develop its own procedures manual that expands on and complements FM content.

Operating within the Business & Administrative Services (BAS) organization, A&E is responsible for the design and construction of new buildings, renovation of existing buildings, renewal of building systems and facilities and deferred maintenance, and seismic retrofit projects on campus.

The UCR ten-year (2009-19) capital improvement program includes about 25 major construction projects and has an estimated total value of more than \$800 million.

The Regents of the UC has established a controlled insurance program for large construction projects. Projects with a projected construction value of \$25 million and over are to be insured under the University Controlled Insurance Program (UCIP). The UCIP is a single insurance program that insures the UC, enrolled contractors, subcontractors, and other designated parties for work performed at project sites. Participation in the UCIP is mandatory (but not automatic) for all eligible parties, unless operations are specifically excluded. UC has specified that insurance costs be excluded from all bids and any change orders.

C. SCOPE

Audit procedures were performed to evaluate the effectiveness of construction management policies and procedures and internal controls and processes related to the administration of construction activities, specifically: the bid and award process, participation in the UCIP, change orders execution, and compliance with funding requirements.

The scope of the audit was principally limited to the review of A&E activities to manage major construction projects active during the fiscal year (FY) 2012-13 through FY 2015-16.

Bidding and Contract Awards

The evaluation and selection of contractors leading to the award of construction contracts is a vital part of the construction process. California State law requires University projects that exceed a cost of \$100,000 to be publicly advertised for competitive bidding and the construction contract to be awarded to the bidder submitting the lowest dollar bid who is qualified and deemed to have the ability to satisfactorily perform the work.

- Reviewed A&E's bidding and contract award process and available documentation, including prescribed bid package documents and pro-forma records for compliance with University policy and procedures.
- Selected the Environmental Health & Safety (EH&S) Expansion Building project (Project No. 950456);
 - The facility will provide space for EH&S administrative offices, laboratories, safety training/learning center, building support space, material entrance, chemical waste, radiation waste, biomedical waste, and universal waste. Exterior yard components include: cargo containers, emergency response trailer, portable storage containers, and vehicle parking;
 - This project was advertised for contractor prequalification and for competitive bidding by prequalified bidders.
- Reviewed advertisements for contractor prequalification and for bids (after prequalification), prequalification submittals, including questionnaires, associated documents, and evaluation records, prequalified contractors' submittals, bidding and contract award documents, and related records, notes, and correspondence provided by A&E.

Participation in the UCIP

Coverage under the UCIP includes Workers' Compensation / Employer's Liability, General Liability, and Excess Liability. The Regents of the UC is covered under the General and Excess Liability policies. Contractors are covered under the Workers' Compensation / Employer's Liability and General and Excess Liability policies.

- Identified UC Riverside capital projects over \$25 million and obtained list of all contractors and subcontractors performing on job sites.
- Confirmed with the UCIP program administrator that general contractors and all subcontractors have been enrolled in the UCIP.

- Validated appropriate insurance coverage by confirming with the UCIP administrator that insurance documents are in effect for general contractors and subcontractors.

Change Orders

A Change Order is a post-award modification to the contract. A Change Order may revise, add to, or delete previous requirements of the work, adjust the contract sum, or adjust the contract time.

A contract may require substantial changes to the work after award. If the cost of a change in the scope of work to be accomplished by a Change Order or series of Change Orders exceeds \$100,000 or if the proposed changes in design are not incidental to the scope of the work as bid, the work may only be performed by Change Order if FM provisions for substantial Change Orders are met.

- Selected the EH&S Expansion Building project (Project No. 950456);
 - The contract was modified by nine (9) Change Orders, for a combined (net) additive amount of \$409,027.47.
 - No single Change Order was for an amount exceeding \$100,000.
- Obtained records underlying all 9 Change Orders for detailed review of Change Order processing and cost verification procedures.
- Reviewed Change Order supporting documents including Change Order justification / cost verification records, project management and design team review notes, correspondence, and approvals, contractor/subcontractor cost proposals, estimates, and other cost information details provided by A&E.

Restrictions / Requirements Attached to Funding

- Reviewed the UCOP Capital Markets Finance Guide and major capital improvement Project Approval Process.
- Reviewed and evaluated the adequacy of departmental practices, procedures, and control structure to monitor compliance with funding restrictions and requirements for construction projects.

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- * effectiveness and efficiency of operations
- * reliability of financial reporting
- * compliance with applicable laws and regulations

Substantive audit procedures were performed during December 2015 through April 2016. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS

Inadequate Records of Contractor Prequalification Evaluations and Bid Opening Due Diligence Procedures

A&E has not retained adequate and appropriate records of contractor prequalification evaluations and bid opening due diligence procedures performed.

COMMENTS

A&E's standard procedure is to use and retain all prescribed documents related to contractor prequalification as well as bidding and contract awards processes.

We reviewed and evaluated the quality of contractor prequalification documents, bid submittals, and other relevant records for the EH&S Expansion Building project. A&E was not able to locate and provide the prescribed Prequalification Questionnaire Evaluation forms for any of the contractors that applied for prequalification. In addition, the Bid Opening Due Diligence form for the successful bidder was also not provided.

The FM requires that contractor prequalification evaluations be recorded in a document developed specifically for determining whether prospective bidders are prequalified. The Bid Opening Due Diligence form is designed to help ensure that bids are responsive in compliance with bid submittal requirements and that bids are opened in accordance with uniform basic procedures for opening bids as prescribed in the FM.

RECOMMENDATIONS

A&E should use and retain Prequalification Questionnaire Evaluation forms to record the process of determining if prospective bidders are prequalified. Bid Opening Due Diligence forms should be completed and retained for all accepted bid packages.

MANAGEMENT RESPONSE

We agree with the recommendation indicated above. A&E does have procedures and documentation in place to ensure this compliance; however, we could not locate the items in question on this project. To ensure that we have this documentation in the future, the Interim Contracts Manager is verifying that the process has been completed for all projects and that proper documentation is in place. We will incorporate this as a formal procedure.