

May 8, 2014

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Associate Administrator  
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**Subject:        *Minor Capital Construction – Medical Center  
Audit & Management Advisory Services Project 2014-07***

The final audit report for Minor Capital Construction – Medical Center 2014-07, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel or destroy them.

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## AUDIT & MANAGEMENT ADVISORY SERVICES

Minor Capital Construction – Medical Center Projects  
May 2014

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Project Number: 2014-07

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**I. Background**

Audit & Management Advisory Services (AMAS) has completed a review of minor capital construction at the UCSD Medical Center in Hillcrest as part of the approved audit plan for Fiscal Year 2013-2014. This report summarizes the results of our review.

The Construction Planning Department (CPD) at UCSD Hillcrest oversees minor capital projects (generally defined as projects costing less than \$750,000) for the Medical Center. CPD solicits project ideas and fields requests from various departments at the Medical Center. Projects costing less than \$50,000 are generally performed by CPD's in-house tradespersons. All other projects are submitted for public bidding through either the formal or informal bidding process as outlined in the UC Facilities Manual. CPD works closely with Facilities Design & Construction (FD&C) to ensure that project contracting and costing is in compliance with the University of California Facilities Manual.

CPD managed 128 minor capital projects during the Fiscal Year 2012-2013. On average, they manage \$5 million in minor capital projects annually. Since all projects are performed for a medical department and must be built to certain Office of Statewide Health Planning and Development (OSHPD) specifications, CPD projects tend to be more costly compared to other projects of similar size and scope. Approximately 85% of the projects handled by CPD are funded with Medical Center revenues. The majority of projects cost less than \$50,000, and CPD attempts to complete as many of these projects as possible using in-house staff.

CPD's staff includes three carpenters, three electricians, a Contract Specialist, a Financial Analyst, an Office Manager, and a Director. Project contracts are approved by the Director and the Chief Operating Office Associate Administrator before being submitted to FD&C for a Contract Manager's final review.

**II. Audit Objective, Scope, and Procedures**

The objective of our review was to determine if internal controls were operating effectively in order to ensure that minor capital projects were being appropriately administered, and were in compliance with the UC Facilities Manual.

In order to achieve our objectives we completed the following:

- Interviewed the Director, Contracts Specialist, and Financial Analyst to obtain an understanding of CPD's processes;
- Reviewed the UC Facilities Manual;
- Reviewed six judgmentally selected prequalification packages submitted by would-be contractors;

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- Judgmentally selected and reviewed five formally and five informally bid projects with bids submitted between July 1, 2012 and November 30, 2013 to evaluate compliance with the UC Facilities Manual;
- Judgmentally selected and reviewed a sample of five change orders processed from July 1, 2012 and November 30, 2013 for compliance with the UC Facilities Manual and contract general requirements; and
- Performed analytical procedures over purchase orders in order to review the distribution of project spending among contractors.

### **III. Conclusion**

We concluded that internal controls were generally adequate to ensure that minor capital projects were being appropriately administered. However, we did identify some instances in which CPD projects were not administered in strict compliance with the Facilities Manual. In addition, we observed that CPD's information systems could be improved to ensure more effective project management oversight and reporting.

### **IV. Observations and Management Corrective Actions**

#### **A. Painting Projects**

**Painting projects exceeding \$100,000 were not subjected to the formal competitive bidding process as required by the UC Facilities Manual.**

Facilities Manual, vol. 5, sets forth the competitive bidding requirements for construction contracts in excess of \$50,000. Any contract exceeding \$50,000 and under \$100,000 must undergo an informal competitive bidding process, and any contract exceeding \$100,000 must undergo a formal competitive bidding process. Informal competitive bidding consists of a direct bid solicitation from three or more contractors able to complete the work, with the contract being awarded to the lowest bidder. The formal competitive bidding process entails the project being publicly advertised, acceptance of formal bid packages from qualified bidders, and awarding the contract to the lowest responsive bidder.

Facilities Manual, vol. 6, chapter 1.3.3 "Exceptions to competitive bidding", sets forth exceptions to the competitive bidding requirements for certain types of projects. Types of projects addressed in this section include specialized equipment, emergency repairs, projects under \$50,000, and maintenance work. It is important to note that this section does not completely waive the competitive bidding requirements for work performed by a contractor, but rather permits the University to use University employees in lieu of a contractor for certain types of projects.

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Facilities Manual Vol. 6, chapter 1.3.2, defines the terms “maintenance” and “construction” separately. Maintenance consists of those activities necessary to keep facilities and systems operational and in good working order. Construction includes building or altering a structure, facility, or system according to a plan or by a definite process. The definition of construction explicitly states that “exterior and interior painting or repainting of new or existing structures are forms of construction.”

In 2010, the FD&C Contracts office advised CPD that a particular painting project costing approximately \$1 million was not required to undergo formal competitive bidding because CPD had classified the work as maintenance. As a result, that particular project was awarded to a contractor via the informal bidding process. CPD management advised AMAS that, since that time, most painting projects have been classified as maintenance projects that were not subject to the formal competitive bidding requirements set forth in the Facilities Manual.

Because the Facilities Manual explicitly defines painting as a form of construction, it appears painting projects that were not competitively bid at the appropriate dollar thresholds were not executed in strict compliance with the Facilities Manual.

**Management Corrective Actions:**

FD&C has communicated clear instructions to its own personnel, as well as to CPD, to correct misunderstandings in regards to categorization of painting projects. CPD will comply with the separate definitions of painting and maintenance set forth in the Facilities Manual by subjecting painting projects to similar competitive bidding requirements as other non-maintenance projects.

**B. Early Start of Construction**

**CPD did not require contractors to execute a License for Early Start of Construction when construction work commenced prior to award of the contract.**

UCOP Facilities Manual vol. 5, chapter 8.9 “Notice to Proceed”, explains that a Notice to Proceed is a document added to the contract to start construction, and that this notice is issued only after a contract has been executed. However, when circumstances warrant, the Facility may allow a contractor to begin work before the contract has been formally awarded, provided that:

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- A License for Early Start of Construction (LES) is executed by both the University and contractor;
- The contractor furnishes to the University evidence of compliance with all insurance requirements of the contract;
- All conditions prerequisite to the award have been met; and
- There is no legal restraint or unresolved bid protest.

These requirements are intended to ensure that the University obtains sufficient legal protection in the event that the project must commence and the contract has not been formally executed. In order to indemnify the University, the Facilities Manual stipulates that a LES must be executed between the University and the contractor if the contractor begins work prior to execution of the contract.

In August 2012, CPD awarded the contract for the Pearlman Suite 2B and C Cosmetic project to Essrig Taylor Construction (ETC) in the amount of \$94,781. The dates of key documents in the project file are as follows:

<b>Document Title</b>	<b>Date</b>
Bid (\$94,781)	7/6/12
Cost breakdown – Form III (cost breakdown for Change Order #1, adds \$16,781 to contract sum and 24 days to project timeline)	7/20/12
Notice of Selection (as apparent lowest bidder for \$94,781)	7/25/12
Agreement (signed for \$94,781)	8/24/12
Notice to Proceed	8/24/12
Change Order #1 (added \$23,221 to contract sum, bringing total to \$118,002)	8/28/12

While our review of change order #1 confirmed that the change in the work was above and beyond the original scope of work, the cost breakdown form supporting the change order was dated prior to the Notice of Selection as the apparent lowest bidder. Further, some daily reports from ETC to CPD predated the Notice to Proceed. Therefore, it appeared that the contractor began work prior to being given the Notice to Proceed.

CPD management advised that contractors are occasionally requested to begin work on a project early so that the project can be completed as quickly as possible, which is especially important in a patient care environment. However, CPD did not require that an LES be completed prior to the early start of the project.

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**Management Corrective Actions:**

CPD will ensure that a LES is executed whenever a contractor is given verbal approval to proceed onto a job site prior to contract award. CPD will provide additional training to its personnel to ensure that this is performed.

**C. Construction Data Management Systems**

**CPD’s project management information systems could be improved to ensure more effective project management oversight and reporting.**

Currently, CPD uses a combination of webTMA (work order software), manually maintained spreadsheets, and Medi-click software to track their operations. CPD uses webTMA to track work orders, invoices, and also to perform recharge activities. WebTMA does not capture bids or construction costs by project. Bids and construction costs by project are manually entered and maintained in spreadsheets. The Medi-click software is used to issue purchase orders on executed contracts and pay contractor invoices.

Since data is not aggregated in any one system, it is difficult for CPD to provide reports without relying on manual data entry. When requested to provide a list of active projects by construction cost, CPD could only provide a list of active projects using data from webTMA combined with construction cost data manually maintained in spreadsheets. Upon inquiry, it was noted that CPD did not have the capability of running reports showing projects that fit certain criteria (i.e., under a certain dollar amount, initiated during a certain date range, by contractor, etc.). CPD’s reporting placed a significant amount of reliance on manual data entry to supplant the varied capabilities of the software systems in place.

In recent years, FD&C has implemented a new and improved capital program and construction contract management software solution called e-Builder. CPD has contacted FD&C to inquire if CPD could use e-Builder for minor capital projects at the Medical Center, but it was determined that the FD&C instance of e-Builder was not intended for projects of relatively short duration. However, it is our understanding that UCSD Facilities Management has implemented their own instance of e-Builder to help improve project management.

**Management Corrective Actions:**

CPD will continue to evaluate options for improving their information systems in the context of resource allocations associated with information



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technology. The will also will explore opportunities to leverage its existing relationships with its current software vendor to meet its reporting needs.