



UCSB Audit and Advisory Services
Internal Audit Report

**Construction:
Proposition 1D Construction**

April 22, 2013

Performed by:
Raphaëlla Nau, Staff Auditor

Approved by:
Robert Tarsia, Director

Report No. 08-13-0017

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AUDIT AND ADVISORY SERVICES
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April 22, 2013

To: Senior Associate Vice Chancellor Marc Fisher
Administrative Services

Re: **Construction: Proposition 1D Construction
Audit Report No. 08-13-0017**

As part of the 2012-13 annual audit plan and in conjunction with a systemwide effort, Audit and Advisory Services has completed an audit of Proposition 1D-funded construction projects. Enclosed is the audit report detailing the results of our review.

The primary purpose of this audit was to ensure that the University of California, Santa Barbara has appropriately used Proposition 1D bond funds, designated to fund construction and renovation of University of California facilities to address enrollment growth, seismic and life safety needs, and renewal of outdated infrastructure.

The scope of the review included construction projects currently in progress or in progress during fiscal years 2006-07 through 2011-12, consistent with the funding provided by Proposition 1D.

The scope of our review included:

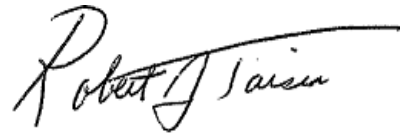
- Bidding and Award
- Proper Use of Funds
- Reporting and Project Closeout
- Proper Use of Space

The audit found that there has been appropriate use of Proposition 1D bond funds, and no critical weaknesses were found in the areas included in the scope of our review. Our work did identify opportunities for improvement in some campus practices for reviewing expenditures on shared accounts and ensuring compliance with construction funding restrictions and requirements.

Detailed observations and management corrective actions are included in the following sections of the report. The management corrective actions provided indicate that each audit observation was given thoughtful consideration and that positive measures have been taken or planned to implement the management corrective actions. The cooperation and assistance provided during

the review by personnel in Design and Construction Services, Contracting Services, Financial Services, and the College of Letters and Science was greatly appreciated. If you have any questions, please feel free to contact me.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert Tarsia". The signature is written in a cursive style with a long horizontal stroke extending from the end of the name.

Robert Tarsia
Director
Audit and Advisory Services

Enclosure

cc: Chancellor Henry Yang
Associate Vice Chancellor Ron Cortez
UCSB Audit Committee
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Jack Wolever, Director of Design and Construction Services
Greg Moore, Associate Director of Contracting Services
Frank Castanha, Project Manager, Design and Construction Services
Karl Burrelsman, Project Manager, Design and Construction Services
Steve Eggemeyer, Project Manager, Design and Construction Services
Cheryle Leckie, Manager of Financial Services
Julie Cunningham, Assistant Dean, Space Planning and Management, College of Letters and Science

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PURPOSE

The primary purpose of this audit was to ensure that the University of California, Santa Barbara (UCSB) has appropriately used Proposition 1D bond funds, designated to fund construction and renovation of University of California (UC) facilities to address enrollment growth, seismic and life safety needs, and renewal of outdated infrastructure. This audit is part of UCSB's 2012-13 annual audit plan and was performed in conjunction with a systemwide effort.

SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the review included construction projects currently in progress or in progress during fiscal years 2006-07 through 2011-12, consistent with the funding provided by Proposition 1D.

The scope of our review included:

- Bidding and Award – The bidding process and contract award.
- Proper Use of Funds – The use of Proposition 1D bond funds for their intended purpose.
- Reporting and Project Closeout – Submission of project status reports, financial closeout of projects, and proper completion of the required Notice of Completion.
- Proper Use of Space – The use of Proposition 1D-funded space for its intended purpose.

The audit objectives, which are outlined in detail in Table 1, included determining whether:

- The bidding process was used for all Proposition 1D-funded projects, as required by the Facilities Manual¹.
- Proposition 1D funds were used for their intended purpose.
- UCSB met the reporting requirements set by the State of California.
- Facilities funded by Proposition 1D funds are occupied and used consistent with the intent of Proposition 1D.

To accomplish our objectives, we reviewed:

- General ledger data for Proposition 1D-funded projects.
- The bidding and award documentation for Proposition 1D-funded projects.
- Project status reports and Notices of Completion.
- Supporting documentation for expenditures selected for detailed testing.

We also:

- Performed walkthroughs of three Proposition 1D-funded projects.

¹ In their upcoming audit of Proposition 1D-funded programs, the California Department of Finance has indicated that it will place particular emphasis on the award of projects, which is part of the bidding process.

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- Gained an understanding of relevant processes and facilities through discussions with key personnel involved in various facets of construction management, including Design and Construction Services and the College of Letters and Science Office of Space Planning and Management.

Table 1		Audit Objectives	
Review Area		Objectives	
Bidding and Award		Determine whether: <ul style="list-style-type: none"> • The bidding process was used for all Proposition 1D-funded projects, as required. • Contractor prequalification was required and qualifications were met. • The contract award process included proper advertisement of an invitation for bids; bids collected were received on or before the bid deadline and were opened publicly. • Projects were awarded in accordance with the UC Facilities Manual and other applicable requirements. 	
Use of Funds		Determine whether: <ul style="list-style-type: none"> • Proposition 1D funds were used for their intended purpose. • There was adequate monitoring of funds to ensure overall compliance with Proposition 1D regulations and UC policies and procedures. 	
Reporting and Project Closeout		Determine whether: <ul style="list-style-type: none"> • UCSB met the reporting requirements set by the State of California. • The appropriate closeout documents were prepared and submitted to the Regents and a Notice of Completion was filed with the local county records office. 	
Use of Space		<ul style="list-style-type: none"> • Determine whether facilities funded by Proposition 1D funds are occupied and used consistent with the intent of Proposition 1D. 	

Source: Auditor Analysis

BACKGROUND

Design and Construction Services (DCS), a unit of Campus Design and Facilities in the Administrative Services Division, is responsible for the delivery of UCSB's major and minor capital improvement program. DCS staffing includes 16 project managers, 7 senior inspectors, and other support staff. The work of DCS is directly supported by two other Campus Design and Facilities units: Contracting Services, which provides contract administration and other administrative oversight for capital improvement projects, and Financial and Administrative Services which provides financial, information systems, and personnel and payroll services.

UCSB's Capital Development Office, which is part of the Office of Budget and Planning, assists the campus in maximizing the utilization of its existing physical facilities and acquiring the physical resources necessary to meet its instruction, research, and public service goals. As part of this mission, the Capital Development Office has primary responsibility for ensuring that there is adequate, appropriate funding in place for all construction projects. Through the Campus Planning Committee, the Capital Development Office advises the Chancellor on all matters relating to major capital developments on campus, including proposals and progress of capital projects, to ensure consistency with approved campus objectives. All new capital improvement projects, prior to being managed by Design and Construction Services, are also reviewed by the Chancellor. When the Chancellor approves new projects, he directs the Office of Budget and Planning to include those projects in the Campus State and Non-State Funded Capital Improvement Programs.

Proposition 1D

Proposition 1D bond funds were provided by the State of California to K-12 schools, community colleges, California State University, University of California, Hastings College of the Law, and the California State Library to help build and renovate facilities to meet the demands of the growing population and to address the life safety needs of existing facilities.

\$890 million was provided to the University of California, of which \$44.5 million was allocated to UCSB for the design, construction, and/or renewal of existing facilities. Projects funded by Proposition 1D bond funds include the:

- Education and Social Sciences Building (ESSB)
- Davidson Library Addition and Renewal (Library)
- Arts Building Seismic Correction and Renewal (Arts)
- Infrastructure Renewal Phase 1 (Infrastructure Phase 1)
- Electrical Infrastructure Renewal Phase 2 (Electrical)
- Engineering II Life Safety Improvements and Addition (Engr. II)
- Phelps Hall Renovation (Phelps)

The Appendix to this report depicts the UCSB 2005-2012 building program and the location of the Proposition 1D construction and renewal projects (boxed in red). The infrastructure projects are not identified in the Appendix, as the work was performed in various areas of the campus. Table 2 provides a summary of funding types and totals for all Proposition 1D-funded projects. The ESSB, Arts, Infrastructure Phase 1, and Engr. II projects were selected for detailed review.

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SUMMARY OPINION

The audit found that there has been appropriate use of Proposition 1D bond funds, and we identified no critical weaknesses in the areas included in the scope of our review. Our work did identify opportunities for improvement in some campus practices for reviewing expenditures on shared accounts and ensuring compliance with construction funding restrictions and requirements.

Audit observations and management corrective actions are detailed in the remainder of the audit report.

Table 2	UCSB Construction: Proposition 1D-Funded Projects			
Projects	Proposition 1D Funds	Other State Funds	Non-State Funds	Total Funding
Education and Social Sciences Building	\$27,206,000	\$53,822,000	\$20,825,000	\$101,853,000
Electrical Infrastructure Renewal Phase 2	6,328,000	7,305,000	3,149,000	16,782,000
Engineering II Life Safety Improvements and Addition	5,000,000	-	10,375,000	15,375,000
Davidson Library Addition and Renewal	2,305,000	68,773,000	-	71,078,000
Arts Building Seismic Correction and Renewal	1,855,000	21,406,000	-	23,261,000
Phelps Hall Renovation	1,100,000	11,508,000	1,861,000	14,469,000
Infrastructure Renewal Phase 1	741,000	11,311,000	5,950,000	18,002,000
Total	\$44,535,000	\$174,125,000	\$42,160,000	\$260,820,000

Source: State of California Proposition 1D-funded project details at UCSB; Bond Accountability website www.bondaccountability.uc.ca.gov

DETAILED OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

A. Bidding and Award

We found that the bidding and award processes for the reviewed projects were properly conducted in accordance with the Facilities Manual. For all projects, the lowest responsible bidder was awarded the contract.

As stated in the background section of this report, we selected the ESSB, Arts, Infrastructure Phase 1, and Engr. I projects for detailed review. Our review found that all projects were advertised in one general circulation newspaper and one trade paper twice in a 60-day period, as required by the Facilities Manual. All projects were also advertised on the Facilities Management website.

Although there was not a prequalification process for the contractors wishing to bid on these projects, contractors were only allowed to bid if they attended both the pre-bid conference and the pre-bid job walk, as stated in the advertisement for bids, with the exception of ESSB. For the ESSB project, interested contractors could attend either the pre-bid conference or the pre-bid multimedia presentation. A contractor not arriving on time to the mandatory pre-bid events would be immediately disqualified. We reviewed the attendance documentation for the pre-bid events, and determined that all bidders did attend the pre-bid events and therefore qualified to bid on the projects. In some cases, the subcontractors were in attendance as well.

B. Use of Funds

We found that Proposition 1D funds were generally used in accordance with applicable regulations; however, we identified minor amounts charged to these accounts for which we could not definitively determine the appropriateness of the charges. The results of our work suggest a need for better coordination to ensure that all amounts are appropriately charged.

ESSB, Arts, Infrastructure Phase 1, and Engr. II were selected for detailed transaction review for appropriate use of Proposition 1D bond funds. We reviewed a sample of 32 transactions, amounting to approximately \$4.2M, to determine whether they were appropriately charged to the Proposition 1D funds, based on the type of transactions and the project phase funded. Although we identified no significant concerns, we did identify minor amounts (less than \$500) for which we could not definitively determine the appropriateness of the charges.

We selected for review 19 ESSB transactions totaling \$78,000, ten of which were equipment purchases charged to the College of Letters and Science equipment account. We found that the relevant ESSB equipment accounts are on the Facilities Management general ledger, but that the departments (College of Letters and Science in this case) that purchase the equipment have signature authorization to approve the purchases. Our review found minor amounts charged to these accounts for which we could not definitively determine the appropriateness of the charges. Financial and Administrative Services and the departments with signature authority on Facilities Management accounts should coordinate a reasonableness review of charges on the equipment accounts for Proposition 1D projects, to ensure the appropriateness of all expenditures.

Management Corrective Actions

Facilities Management Financial and Administrative Services will contact the departments with signature authorization to approve purchases on the equipment accounts, and coordinate a reasonableness review (with Plant Accounting in Business and Financial Services) of all incurred expenses. This will be done annually when costs are capitalized, as well as prior to project closeout.

Audit and Advisory Services will follow up on the status of this issue by October 31, 2013.

C. Reporting and Project Closeout

Our work in this area included a review of project status reports and closeout documentation such as the required Notice of Completion. The status reports include information such as changes to project schedules, financial data, and percentage of completion.

1. Project Status Reports, Financial Closeout, and Notices of Completion

The audit found that, although the project status reports were being submitted to the Office of the President (UCOP), they were not all submitted in a timely manner. The State of California requires that the reports be submitted quarterly. We found two instances that the reports were submitted on an annual basis; others were submitted quarterly, but reports for some quarters were not submitted.

We found that a Notice of Completion was filed with the local county records office for all projects reviewed. Proposition 1D regulations require filing a Notice of Completion following the completion of the project, and the Facilities Manual encourages filing and recording within 15 days of the project's completion. In one instance, the Notice of Completion was filed one month following the completion of the project. Design and Construction Services should ensure that notices of completion are filed within the period encouraged by the Facilities Manual, when possible.

Our review also found that financial closeout documents were not prepared for any of the four projects we reviewed in detail. In one case this was allowable, as the project has not yet reached final completion. The financial closeout process formalizes the termination of a project, and includes the closure of accounts to provide a final accounting of the amount of funding expended for the project, and the detail by funding source. The State of California requires that financial closeout documents be prepared and submitted to UCOP. In order to remain in compliance with Proposition 1D regulations and ensure resources are expended for their intended use, Design and Construction Services should prepare and submit to UCOP the required closeout documents for Proposition ID projects.

Management Corrective Actions

For all remaining projects in progress, Design and Construction Services will ensure that quarterly reports are submitted in a timely manner (quarterly basis). Notices of Completion will be filed within 15 days following the completion of the project, when possible.

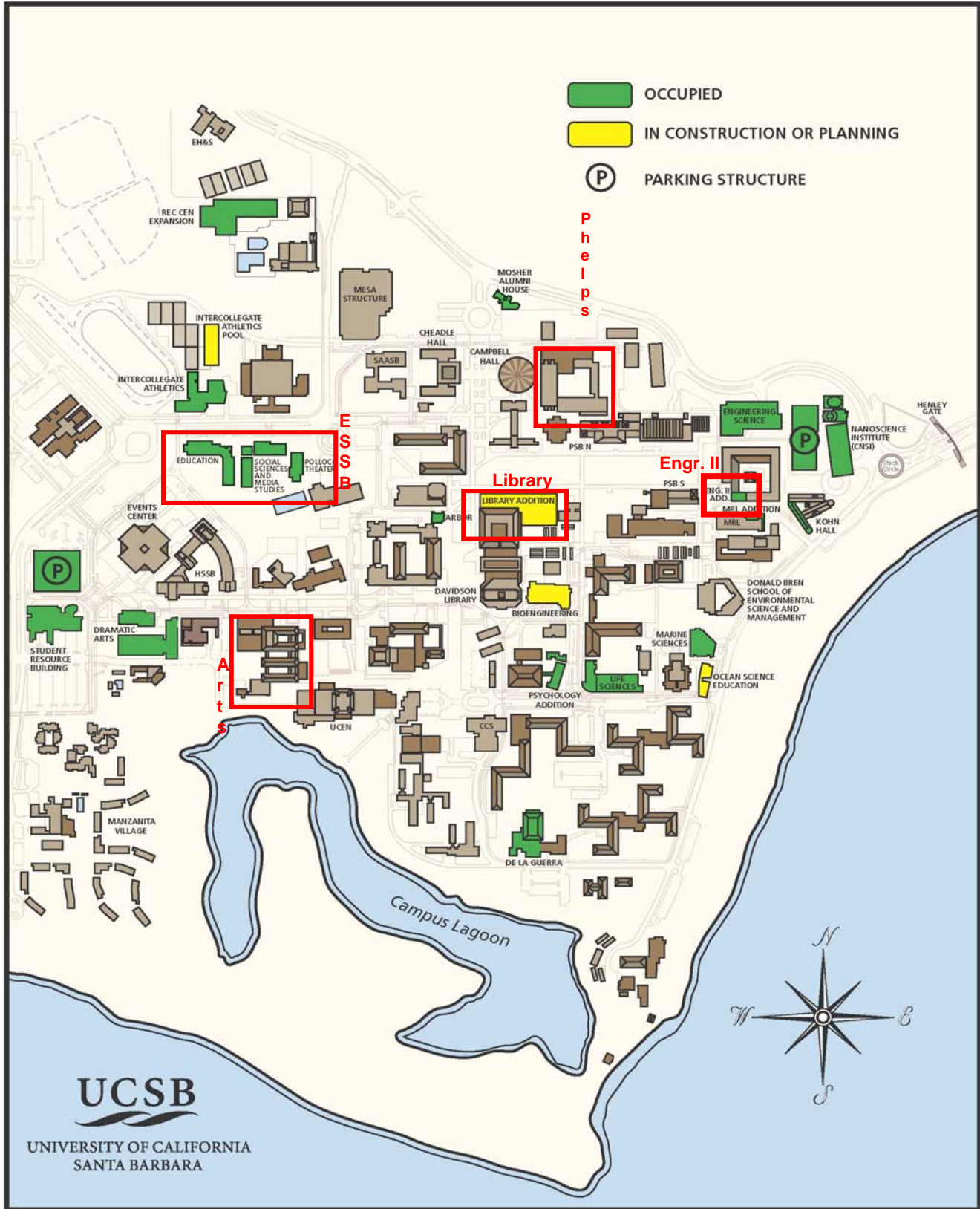
Closeout documentation will be prepared for all closed Proposition 1D funded projects and will be sent to UC Office of the President; the timeframe for this will be consistent with the one-year warranty period.

Audit and Advisory Services will follow up on the status of this issue by October 31, 2013.

D. Use of Space

Based on the work performed within the scope of the audit, we determined that facilities funded by Proposition 1D are being used for their intended purpose. We performed walkthroughs of the new buildings and renovations for the ESSB, Arts, and Engr. II projects with knowledgeable personnel, and compared the use of the facilities with the project descriptions provided by UCSB to the State of California. We determined that the projects were, in fact, completed and are being used as stated in the project description.

Appendix: UCSB Building Program and Proposition 1D-Funded Projects



APRIL 2010

UCSB Building Program 2005–2012

Source: UCSB Office of Budget and Planning Website. Proposition 1D projects are boxed in red.