

UC MERCED AUDIT AND ADVISORY SERVICES

July 16, 2018

To: Michael McLeod – Chief Facilities and Campus Operations Officer

Subject: Audit of Downtown Campus Center Construction Project

Ref: Audit Report No. M18A008

Internal Audit has completed an audit of the Downtown Campus Center Construction Project, which was part of the 2017 – 2018 Audit Plan.

We appreciate the help we received from staff in Construction, Records Management, and Accounting Services during this audit. If you have any questions, please feel free to contact me.



Todd Kucker
Director of Internal Audit

Attachment

cc Senior Vice President and Chief Compliance and Audit Officer Bustamante
Chancellor Leland
Associate Chancellor and Senior Advisor Putney
Chief Financial and Administrative Officer Mendez
Assistant Vice Chancellor and Controller Riley
Assistant Controller Groesbeck
Director Telechea

**UNIVERSITY OF CALIFORNIA, MERCED
AUDIT AND ADVISORY SERVICES**

Downtown Campus Center Construction Project
Report No. M18A008

July 16, 2018

Work completed by:
Todd Kucker – Internal Audit

Management Summary

As part of the Fiscal Year 2017 – 2018 audit plan, Internal Audit has completed an audit of the Downtown Campus Center construction project. As the final payments for the construction project had not yet been completed, the scope of the audit considered work and spending through April 30, 2018.

During the audit, we reviewed the bidding process, compliance with UC policy, and change order documentation. The change orders we reviewed accounted for 58% of the \$1,080,238 worth of change order costs incurred on the project (through April 30, 2018).

Overall, we concluded that processes related to awarding work complied with UC policies and that Construction staff have effectively managed the construction project.

As a result of our review, we recommended a way to improve compliance with the University Controlled Insurance Program which is discussed in the report below.

Objectives and Scope

Internal Audit has completed an audit of the Downtown Campus Center construction project, which was part of the Fiscal Year 2017 – 2018 audit plan. The purpose of the audit was to assess the adequacy of internal controls and construction management processes in the following areas:

- Bidding and award process;
- Contractual requirements, payments and change order execution;
- University Controlled Insurance Program (UCIP); and,
- Funding restrictions and requirements.

The audit objectives were:

- To review the project management controls in place for completing the construction project on time and within budget;
- To confirm that construction project bids and awards were in compliance with UC Facilities Manual requirements;
- To ensure that the contractor and subcontractors were enrolled and covered under the UC Insurance Policy according to program underwriting requirements;
- To verify that the construction project, including change orders, was in compliance with applicable contract terms and conditions; and,
- To review compliance with restrictions and requirements related to funding.

To fulfill the audit objectives, we completed testing in the following areas.

Bidding and Award Process

We reviewed the prequalification process and bidding for the Construction Manager at Risk and the subcontractors. We also reviewed the process for awarding contracts for professional services

(Executive Design Professional Agreements and Professional Services Agreements). No issues were identified with the prequalification and bidding processes.

Contractual requirements, payments, and change order execution

We evaluated the review and approval processes related to monthly payment applications. We compared payments with the original contracts to verify that payments complied with agreed upon amounts. The audit covered expenditures through April 30, 2018. While the final payments and close out entries had not yet been entered in the financial system, we noted that the anticipated final cost of the project was within budget.

To review change orders, we selected six change order packages totaling \$627,380 which represented 58% of the \$1,080,238 worth of change order costs paid through April 30, 2018. We verified that the change order documentation provided adequate justification for the work to be completed on a change order and we reviewed for proper approvals. No issues were identified with payments and change orders.

The following table is a comparison of change orders on this project with other UC Merced construction projects during the last five years:

Construction Project	Delivery Method	Change orders as a percentage of original contracts
Downtown Campus Center (Through April 30, 2018)	Construction Manager at Risk	3.5%
Central Plan and Telecommunications Reliability	Construction Manager at Risk	4.6%
Classroom Office Building 2	Construction Manager at Risk	3.1%
Science and Engineering 2	Multiple Prime	8.9%
Student Services Building	Construction Manager at Risk	13.5%
Housing 4	Multiple Prime	8.9%
<i>Average of all projects</i>		<i>7.0%</i>

University Controlled Insurance Program (UCIP)

To verify that all contractors and subcontractors signed up for UCIP before completing work on the construction project, we compared the listing of contractors and subcontractors with a listing of enrolled contractors provided by the UCIP Administrator. For the most part, all contractors were enrolled before completing work on the project. We noted that a Tier 2 subcontractor did not sign up for UCIP. This observation is discussed below.

Funding Restrictions and Requirements

We reviewed the funding utilized to finance the Downtown Campus Center project and identified the special requirements and restrictions related to the funding. We discussed the restrictions with employees in the Budget Office and Accounting Services to verify that requirements were properly understood and monitored. We reviewed that funds received for the

construction project were only used to pay for construction-related expenses. No issues were identified related to funding restrictions.

Background - Overview of Downtown Campus Center Construction Project

The following is a summary of information presented to the UC Regents during the approval of the Downtown Campus Center project in 2015:

During prior years, UC Merced had utilized off-campus leased space in the cities of Atwater (Castle 1200) and Merced (Mondo Building, Parade, and Promenade) to accommodate campus administration functions. This had allowed the campus to allocate limited on-campus space mostly for student academic and support functions. Based upon a study commissioned to better understand the workplace environment for administrative staff at UC Merced, the space being leased has impacted work operations for campus administration. The spaces were inefficient and geographically isolated, resulting in increased operational costs, inefficient communication, and poor departmental synergy. The findings showed that the campus administrative staff struggle to collaborate with little face-to-face interaction. Additionally, the leased facilities were not sufficient to accommodate the administration currently housed in Kolligian Library, where space occupied by campus administration is needed to be released for student support functions.

To remedy the staffing issues described above, the Urban Land Institute, in 2013, recommended that UC Merced locate a significant number of staff members at a central location. One suggested location was downtown Merced, which would strengthen the campus' presence within the city. After determining that adequate office space for lease in Merced was not available, the campus proposed to construct the Downtown Center that will consolidate many of the campus' administrative functions, provide the campus with a Downtown presence, and help revitalize the Downtown neighborhood by bringing approximately 370 people to the area each business day.

The Downtown Campus Center project involves the construction of a new 67,400-gross-square-foot building in Downtown Merced. The purpose of the new building is to enable the campus to consolidate administrative staff on-campus and in multiple off-campus sites to a centralized location. The primary goal of the project is to create a facility that enhances cost-efficiency and staff productivity by consolidating leased space and utilizing efficient and flexible layouts suited to a 21st century work environment. The project would allow the campus to release valuable on-campus space in the Kolligian Library for faculty/student use.

In July 2015, the UC Regents approved the design of the Downtown Center project and the budget of \$45,116,000 to be funded with external financing in the amount of \$41,998,000 (previously issued Century Bonds) and campus funds of \$3,118,000. It was anticipated that project construction would commence in Spring 2016 and would be completed Summer 2017, with occupancy anticipated in August 2017.

The delivery method utilized was Construction Manager at Risk. Under this method, the University contracts with a firm that provides management services during design and bidding phases and assumes responsibility for the construction work. The Construction Management

(also referred to as “CM @ Risk”) commits to deliver the project within a guaranteed maximum price.

Actual Timing and Cost of the Project

Groundbreaking for the construction project occurred on June 8, 2016 and the ribbon cutting for the new building was on January 23, 2018. Administrative staff began moving into the new building during January 2018. Currently, around 160 staff are located at the Downtown Campus Center. Based upon payments and costs allocated through April 30, 2018, it is apparent that the final costs of the project should be within the approved budget.

Conclusion

Based upon the audit testing, we concluded that processes related to awarding work complied with UC policies and that Construction staff have effectively managed the Downtown Campus Center construction project. As a result of our review, we recommended a way to improve compliance with the University Controlled Insurance Program which is discussed below.

Observation and Recommendation

Mandatory Enrollment in UCIP

The Regents have 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 University, 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.

During the audit, we reviewed that the Construction Manager at risk and all subcontractors enrolled in UCIP. We noted that a Tier 2 subcontractor completing the fire alarm systems work for the electrical subcontractor did not enroll in UCIP. We determined that the Tier 2 contractor should have enrolled in UCIP and we contacted the UCIP administrator to confirm that they had not.

As it was not identified during the construction phase that the subcontractor did not enroll in UCIP, no one verified whether the subcontractor had obtained and maintained sufficient insurance coverage while working on the Downtown Campus Center project.

On future construction projects, we recommend that a process be established to verify that all contractors and subcontractors properly enroll in UCIP. To do this, UC Merced construction staff should periodically obtain reports from the UCIP administrator that lists contractors enrolled in UCIP and reconcile the listing with the contractors and subcontractors working on the project.

Management Corrective Action

Management agrees with the recommendation. During future construction projects where UCIP is a requirement (over \$25 million), Construction staff will work with the UCIP administrator to verify that all eligible contractors and subcontractors have enrolled in UCIP.