CAMPUS SERVICE ENTERPRISES

ASSET MANAGEMENT

AUDIT REPORT #18-2216

Audit & Advisory Services

November 2018

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# Background

In accordance with the Campus fiscal year 2017-18 audit plan, Audit & Advisory Services (A&AS) conducted an audit of Asset Management’s property management activities over the UCLA 100 Medical Plaza, 924 Westwood Center, 10889 Wilshire Glendon, and 10920 Wilshire Center office buildings.

Asset Management supports the educational mission of the University by providing safe, clean, and well maintained off-campus space that meets or exceeds the office needs of its tenants including, efficient environmentally-sensible and cost-effective construction coordination services for off-campus projects; and services as requested for customers who operate off-campus University-owned properties.

Asset Management is responsible for various levels of property management services for University-owned properties, generally off campus. At present, there are approximately 90 properties in this portfolio, including commercial, industrial, residential, medical, and special purpose properties.

The department provides the following three levels of service based on customer needs:

#### Minimal Services

* + Recordkeeping (Asset Management provides a general file for each property with vital information regarding its purchase and financing terms).
  + Property tax administration.
  + Real estate valuations.
  + Coordination of reviews by other departments or outside entities (i.e., Environment, Health & Safety; Insurance and Risk Management; Fire Department; seismic, and American Disabilities Act (ADA) inspections) and/or annual physical inspections.
  + Provide initial/schematic space planning and preliminary project budgets at concept stage to University tenants.
  + Troubleshooting mechanical, electrical, plumbing system issues in tenant suites, such as HVAC and lighting.

*Moderate Services**–* In addition to the scope of minimal services described above, the department:

* + Contracts out services and oversees property management services.
  + Provides bidding and oversight of repairs and maintenance.
  + Performs “green” cleaning and maintenance.
  + Assists with lease negotiation, administration, extensions and terminations for non-UC tenants in University-owned properties.
  + Provides detailed tenant improvement space planning, design development, detailed project cost budgeting, bidding and construction oversight for UC tenants in non-UC owned properties.

*Comprehensive Services* – In addition to the moderate scope of services described above, Asset Management provides full service property management at the UCLA 100 Medical Plaza, 924 Westwood Center, 10889 Wilshire Glendon, and 10920 Wilshire Center office buildings. Services include:

* + Building operation and maintenance (engineering, janitorial, “green” maintenance, security and parking) for Wilshire Center, Westwood Center, and Wilshire Glendon only.
  + Due diligence for acquisitions and dispositions.
  + Major maintenance and capital improvements.
  + Turn-key tenant improvements including contracting architectural and engineering, design services, budgeting and cost estimating, plan check, negotiated and competitive bidding, and construction oversight including coordination of inspections in accordance with the UC Facilities Manual.
  + Lease negotiation, lease administration, and collection of rent.
  + Annual operating budgets, financial accounting, records, and reporting.
  + Management of day-to-day operations and tenant relations.

Asset Management funds these services on a recharge basis to compensate for the time spent on each activity as well as the cost of outside services, consultants, and contractors. Upon request, Asset Management provides other UCLA departments with a Service Level Agreement proposal to manage and operate their building. Budgeted costs are compiled to customize a plan for each client’s requirements. Rates are subject to POSSSE approval. To the degree that moderate and comprehensive levels of service increase, any additional staffing needed is evaluated and funded by service recharges.

#### The focus of the audit was on the following four buildings:

UCLA 10920 Wilshire Center Office Building

The Wilshire Center (WC) building is 98% occupied with 93% of space occupied by UC tenants. As of November 2017, the WC building had 44 tenants (41 UCLA, 3 non-UCLA). For fiscal year 2016-17, the WC building had $11.8 million of revenue/funding and $5 million in expenditures.

From a project standpoint, Asset Management oversees various tenant improvement, major maintenance/capital improvement, and maintenance/repair projects throughout the building.

UCLA 100 Medical Plaza Office Building

The 100 Medical Plaza (MP) building is 95% occupied with 89% of the space occupied by University tenants. For fiscal year 2016-17, the MP building had $7.2 million of revenue/funding and $2.1 million in expenditures. As of November 2017, the MP building had 46 tenants (41 UCLA, 5 non-UCLA).

As a medical office building, special care must be taken during construction to avoid potential damage to sensitive equipment such as x-ray, MRI and cardiology machines. All renovations and mechanical equipment replacements and repairs require high-level coordination between engineers, contractors, tenants and user groups to deliver uninterrupted service by the building’s mechanical, electrical, and plumbing systems. This requires scheduling construction work after hours (evenings and weekends) to allow the medical suites to continue serving the needs of their patients.

UCLA 924 Westwood Center Office Building

The Westwood Center (WW) building is 94% occupied with 86% of the space occupied by University tenants. For fiscal year 2016-17, the WW building had $11.8 million of revenue/funding and $5 million in expenditures. As of November 2017, the WW building had 52 tenants (45 UCLA, 7 non-UCLA).

The building consists of a 10-story office tower, a block-long retail podium facing Westwood Boulevard, and a subterranean parking garage with 300 spaces. To receive competitive pricing from experienced bidders, a pool of prequalified general contractors is maintained.

UCLA 10889 Wilshire Glendon Building

Wilshire Glendon (WG), located at 10889 Wilshire Boulevard, is an existing 15-story office tower, and an attached three-story museum building, acquired by the University in October 2015. The office tower and museum were built in 1961 and 1989, respectively.

The WG building consists of a 304,917 rentable-square-foot (rsf) mixed-use property; consisting of approximately 232,299 rsf, of which 161,686 rsf are available for occupancy; a 72,618 rsf museum building; and a 634-stall subterranean parking garage on 1.7 acres of land. Wilshire Glendon occupies a complete city block, and is strategically located in close proximity to the campus.

As of November 2017, the WG building had 7 tenants (5 UCLA, 2 non-UCLA). For fiscal year 2016-17, the WG building had $3.8 million of revenue/funding and $8.7 million in expenditures. Wilshire Glendon has a long-term lease with the Hammer Museum for the museum building and the first five (5) floors in the office tower. UCLA has a strategic need for office space near the campus, to (a) relocate occupants currently in campus buildings as they undergo seismic renovation; (b) relocate administrative functions from core campus buildings to allow them to be repurposed for academic use; and (c) consolidate the UCLA Development Program (UCLA's fundraising department) to a single location. Ultimately, this space is expected to accommodate some of the roll-over of existing off-campus leases in the West Los Angeles area. The campus plans to fill all of the available space in the office tower with these uses.

As of November 17, 2017, Asset Management had 27.5 full-time equivalent positions. The department is managed by a Director who reports to the Executive Director of Campus Service Enterprises.

Purpose and Scope

The primary purpose of the audit was to ensure that Asset Management’s organizational structure and controls, and the related systems and procedures surrounding the property management functions are conducive to accomplishing its business objectives. The secondary purpose was to evaluate the adequacy and efficiency of internal controls. Where applicable, compliance with campus and University policies and procedures was also evaluated.

The scope of the audit focused on controls surrounding the following activities:

* Cash Handling
* Property Maintenance and Contracted Services
* Tenant Improvements
* Billing and Collections

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary to achieve the objective.

An entrance meeting was held with Asset Management staff on August 31, 2017, to discuss the audit process, potential objectives for the audit, scheduling planning meetings, request initial information items, and to obtain feedback on any concerns that management might have. Multiple attempts to follow up via email and phone calls were made after the entrance meeting to check on the status of receiving the initial items requested from Asset Management staff and to confirm planning meetings. Asset Management staff began providing some of the requested items by mid-November 2017, and the first planning meetings could not be held until late November 2017 – nearly three months after the entrance meeting. Throughout the course of the audit, several items of information and supporting documentation were requested by A&AS but were not provided by Asset Management timely – responses averaging two to three months after the request. The last documentation items were received by A&AS in mid-June 2018. Consequently, A&AS staff was hindered from performing its work as efficiently as would otherwise be possible.

Summary Opinion

Based on the results of the work performed within the scope of the audit, and in consideration of the information constraints noted above, internal controls utilized by Asset Management over its property management activities were generally conducive to accomplishing the department’s business objectives. However, controls and business practices could be further strengthened by implementing the following:

*Cash Handling*

* Modify the existing access of safes by requiring them to be opened under dual custody. The cabinet in which the main safe is located could be made lockable to where one person would have the key to the cabinet, and a separate individual would have the code to the safe. For the petty cash safe, the key and code could be required in combination to gain access. In addition, keys utilized to open the safes should be marked “Do Not Duplicate.”
* Maintain an inventory of lost and found items in the buildings, and the details of where and when the items were found, if possible. Furthermore, management should adhere to the lost and found policies detailed on the UCLA Police Department (UCPD) website. According to the UCPD website, there are about 50 designated lost and found locations around the campus. Each location is responsible for keeping items submitted to them for a minimum of 90 days. After 90 days, all items are given to UCPD for disposal. If the owner cannot be found and the finder of the lost item wants to keep it, all applicable laws must be followed.
* Develop and implement procedures that require separation of duties for individuals who make purchases for the department from those who oversee the reimbursement process. In addition, staff designated with reimbursement responsibilities should ensure that adequate supporting documentation accompany any request for reimbursement.
* As a good business practice, consider coordinating with Business and Finance Services staff to obtain the daily bank statements for all electronic financial transactions to ensure that the amounts collected and processed by Asset Management were actually deposited to the bank and appear on the bank statements accurately. Since December 2017, bank statements for Asset Management have been available through (<http://ga.accounting.ucla.edu/banking/>) to help facilitate their review.

*Property Maintenance and Contracted Services*

* To enhance management oversight and improve responsiveness to requests from stakeholders and other key parties, tenant work order history reports and current signed parking services agreements should be maintained and readily available in accordance with University policy RMP-1, “University Records Management Program.
* Management should maintain copies of the current signed parking services agreements on hand to strengthen its financial oversight and to ensure a timely response to third-party requests.

*Tenant Improvements*

* Management should verify that tenants are satisfied with any tenant improvement work performed prior to approving contractor payments to ensure that all work specified in the contract or work order is completed satisfactorily. Such a review should be clearly documented so that payment processing can proceed timely.

The audit results and corresponding recommendations are detailed in the following sections of this report.

Audit Results and Recommendations

Cash Handling

Asset Management received approximately $5.5 million in payments during fiscal year 2016-17. Cash handling business practices were evaluated for compliance with UC Business and Finance Bulletin BUS-49, “Policy for Cash and Cash Equivalents Received” (BUS-49).

As part of evaluating compliance with University and departmental policies and procedures, discussions were held with personnel regarding departmental business practices for cash collections, the deposit process, and reconciling and monitoring. Furthermore, written procedures were reviewed and a walk-through of the physical security over cash receipts was performed. The following were noted:

1. Physical Security

A walk-through of the physical locations housing the department’s safes and observation of the security of the surrounding areas was performed. The following was noted:

* The safe combinations are restricted to supervisory personnel and other authorized individuals who know the combination by memory. Each person with access has an individual code that identifies specific instances of when they open the safe, if the need ever arises. A log of the combination codes are maintained away from the safe areas. Assigned combinations to the safe are permanently deleted whenever an employee leaves the department. The codes are changed at least once annually. However, both the main safe and the petty cash safe in the WC building can be opened without two people being present. The following were noted:
* The main safe, which stores tenant rent checks awaiting deposit, is located in the accounting area of the Asset Management office in an unlocked cabinet. Nine individuals can access the safe independently, as each person has a unique code.
* The petty cash safe, which stores an authorized fund of $750, is located in the Asset Manager's office. A property manager (authorized custodian of the petty cash fund) has the code to the safe and the Director has the key; however, the code and key do not need to be utilized together to open the safe. The Director’s key is only used if the battery operating the safe’s keypad stops working. The key to the safe is not marked “Do Not Duplicate.” Both individuals can open the safe independently.

While management may have the ability to identify which employee opened the safe at a particular time based on their unique code, existing business practices do not adequately minimize the risk of theft or loss of University assets from occurring because access to the safe is not managed under dual control at all times.

Recommendation: Management should modify the existing access of its two safes by requiring both to be opened under dual custody. For the main safe, the cabinet in which the safe is located could be made lockable to where one person would have the key to the cabinet, and a separate individual would have the code to the safe. For the petty cash safe, the key and code could be required to be used in combination to gain access. BUS-49 Section IIB Separation of Duties, requires “at least two qualified individuals must be assigned to carry out key duties of the cash handling process.” Implementing a practice whereby separate individuals use two keys or a key and combination mix would satisfy this requirement. In addition, keys utilized to open the safe should be marked “Do Not Duplicate.”

Response: Two safes to open under dual custody – for the “main safe,” Asset Management placed a service request with UCLA Facilities Management on June 15, 2018, to have an additional lock installed. As part of this request, Asset Management requested that the key be marked “Do Not Duplicate.” This work was completed on June 22, 2018. Asset Management staff that now have access to the "main safe" key are the following: two Financial Supervisors, Asset Manager, and Special Projects Manager. Asset Management took away the two Financial Supervisors’ combination access effective June 22, 2018. For the “petty cash safe,” effective July 24, 2018, Asset Management no longer has petty cash.

1. Lost and Found

Management does not have procedures in place for handling lost and found items that are currently being stored in the departments safe. Most of these items appear to be personal items of tenants or non-University visitors. The safe located at the WW's Asset Management office does not hold any cash or checks, but does contain a small basket of master keys, empty cash bags, and several mobile devices, which were lost and had been turned in to the Office of the Building after being discovered on building premises. Staff indicated that some of these items have been stored in their safe for over one year. Existing practices do not adequately catalog or safeguard lost and found items while in the department’s possession. As with other Asset Management safes, department staff have the ability to identify a particular employee who opened the safe based on their access code, but that alone does not prevent the risk that theft of stored items could still occur.

Recommendation: Management should maintain an inventory of items found in its buildings and the details of where and when the items were found, if possible. Furthermore, management should require staff to adhere to the lost and found policies detailed on the UCPD website. According to the UCPD website, there are about 50 designated lost and found locations around the campus. Each location is responsible for keeping items submitted to them for a minimum of 90 days. After 90 days, all items are given to UCPD for disposal. If the owner cannot be found and the finder of the lost item wants to keep it, all applicable laws must be followed. In addition, as with all department safes, access should be administered under dual custody.

Response: Asset Management agrees with the recommendation and has implemented a new department policy, “UCLA Asset Management Lost & Found Policy.”

1. Petty Cash

Asset Management has one $750 petty cash fund, which is managed by a property manager, who is also the authorized custodian. According to Asset Management staff, cash from this fund is only used in emergency situations, such as when the batteries for the electronic paper towel dispensers could not be located at the time when replacement was needed.

An unannounced count of the petty cash fund was performed to verify that the authorized amount was on hand, and that supporting documentation of any transactions from the fund was being maintained. During the cash count, A&AS staff observed the fund custodian open the petty cash fund safe, count all of the cash on hand, and verified that the safe contained $750, which corresponded with the petty cash log kept in the safe.

A&AS also tested the three disbursements recorded in the petty cash log to verify that the expenditures were appropriate, had adequate supporting documentation, were properly approved, and that the custodian reconciles the fund whenever it is replenished. Based on the testing performed on the three purchases and one replenishment, the following was noted:

* All disbursements were determined to be appropriate expenditures.
* Adequate supporting documentation was noted for all three transactions.
* In two instances, transactions were properly approved. However, in one transaction, a lack of separation of duties in the approval process was noted involving a transaction in which the Petty Cash Fund Custodian used money from the fund and then reimbursed himself for the purchase.
* There were no formal written procedures or approval documentation for the reimbursement. Although no written approval was identified for the fund custodian to self-reimburse, Asset Management staff indicated that verbal approval is obtained from the Asset Manager or department Director to open the petty cash fund safe to withdraw funds and make an expenditure. A proof of purchase (copy of invoice/receipt) is required for supporting documentation and future replenishment.
* For the replenishment, the UCLA Payment Solutions and Compliance (PSC) petty cash fund application was appropriately completed and submitted, and the Dunbar courier service delivered the replenishment.

Recommendation: Management should develop and implement procedures that require separation of duties for individuals who make purchases for the department from those who oversee the reimbursement process. In addition, staff designated with reimbursement responsibilities should ensure that adequate supporting documentation accompany any request for reimbursement. UC Accounting Manual, C-173-61, “Cash: Petty Cash Disbursements”, Section IIIC. “Reimbursement of Funds” requires that reimbursements made to a fund custodian for petty cash expenditures must be approved for payment by someone with signature authority who is neither the petty cash custodian nor an employee who reports to the petty cash custodian.

Response: Effective July 24, 2018, Asset Management no longer has petty cash.

1. Cash Receipts and Deposits

Internal controls over Asset Management’s cash receipt and deposit process were evaluated to assess their adequacy in safeguarding University property. Twenty transactions were judgmentally selected (five for each building) from the fiscal year 2016-17 general ledger to test whether all cash receipts are properly recorded, cash receipts are deposited in a timely manner, and that individual accountability and separation of duties are maintained. A&AS reviewed related supporting documentation, which included check logs, payment and deposit records, and bank statements.

Based on test work performed, the following was noted:

* Fifteen cash and check selections tested were properly received, recorded, reviewed, transported, and deposited in accordance with University policies and procedures. Individual accountability and separation of duties were maintained. When initially received, payments were properly recorded into the check register log. Cash receipts were then recorded in CASHNet and deposits were prepared in an appropriate and timely manner. Two employees are involved in opening the mail and signing the log when checks are received. The deposit transactions tested agreed to the bank statements. Additionally, deposits were picked up by the Dunbar courier service in a timely manner.

A&AS was unable to conclude on the timeliness and adequacy of the reconciliation process tracing the deposits to the bank statement and general ledger. An audit request from December 2017 for two sample months of reconciliations covering each of the four buildings was not provided by Asset Management during the course of the audit.

Recommendation: As a good business practice and because department staff have more in-depth knowledge about the nature of transactions they have initiated and processed, management should consider coordinating with Business and Finance Services staff to obtain the daily bank statements for all electronic financial transactions to ensure that the amounts collected and processed by Asset Management were actually deposited to the bank and appear on the bank statements accurately. Since December 2017, bank statements for Asset Management have been available through (<http://ga.accounting.ucla.edu/banking/>) to help facilitate their review. UCLA Corporate Financial Services management indicated that the General Accounting unit has the primary responsibility to reconcile all incoming cash collections with the bank statements.

Response: Asset Management currently obtains daily bank statements for cash and check transactions. Asset Management is not able to access the following website: (<http://ga.accounting.ucla.edu/banking/>) in order to obtain copies of the bank statements for credit card and EFT transactions. These statements are available to only specific departments within UCLA. Asset Management will contact CFS and request access to the recommended site.

Property Maintenance and Contracted Services

Asset Management provides a variety of property management services to its tenants as described in the background section of this report. While department employees serve key roles in providing such services, a number of services (e.g., housekeeping, maintenance, security, parking) are provided by outside contractors. The adequacy of internal controls over Asset Management’s processes for managing tenant work orders, maintenance and contracted service expenditures, and parking revenue was evaluated. The following were noted:

* 1. Tenant Work Orders

Asset Management’s tenant work order process was reviewed to evaluate the adequacy of internal controls and related business practices. Work orders are created for repairs or special services requested by a tenant and facilitated by property assistants, property managers, and engineers. A sample of 16 work orders (four for each building) from the fiscal year 2016-17 general ledger was selected to test whether tenants were properly billed in a timely manner and charges were properly recorded to the appropriate general ledger accounts. A&AS reviewed corresponding supporting documentation that included tenant work order forms and related tenant invoices.

Based on the work performed, it was determined that tenant work orders and their associated charges were accurately recorded in the appropriate general ledger accounts.

Several attempts were made to follow-up with Asset Management staff for additional clarity on the details related to each work order. A tenant work order history report for each of the four buildings managed was also requested from Asset Management staff in December 2017, March 2018, and May 2018 to help provide a full understanding of the nature of the types of work orders being managed, including the details of the test items. A&AS eventually received the requested information by June 2018.

Recommendation: To enhance management oversight and improve responsiveness to requests from stakeholders and other key parties, tenant work order history reports and all related supporting documentation should be maintained and readily available in accordance with University policy, RMP-1, “University Records Management Program.”

Response: Asset Management maintains work orders on hand and readily available via the department server.

* 1. Maintenance and Contracted Services

To evaluate the adequacy of internal controls over maintenance and contracted services (housekeeping and security), Asset Management’s expenditure process and documentation practices were reviewed. A judgmental sample of 20 maintenance and contracted services expenditures (five for each building) from the fiscal year 2016-17 general ledger was selected to test and determine whether services were procured properly, inspected for satisfactory performance, invoices were properly approved for payment, and the amount paid agrees to the invoice. A&AS reviewed corresponding documentation, which included invoices and procurement records. Based on the test work performed, the following was noted:

* Maintenance and contracted services were procured properly.
* Services were inspected for satisfactory performance as indicated by dated signatures/initials of either the Property Manager or Chief Engineer (depending on the type of service being provided).
* Invoices were properly approved for payment as indicated by various dated signatures/initials of Asset Management staff and the department’s approval stamp.
* The amounts paid agree to the invoices reviewed.

Discussions with Asset Management staff, review of supporting documents, and test work indicated that Asset Management has established standard business practices related to maintenance and contracted services expenditures. Review of the 20 sample expenditures showed that they were processed in accordance with Asset Management policies and procedures.

There were no significant control weaknesses noted in this area.

* 1. Parking Revenue

The adequacy of internal controls over Asset Management’s parking revenue process was evaluated. At three of the four buildings managed by Asset Management (WG, WW, and WC), parking revenue is collected by third-party parking vendors contracted by Asset Management. Parking revenue for these three buildings in fiscal year 2016-17 was $568,074 for WG, $439,344 for WW, and $604,178 for WC. At the fourth building (MP), UCLA Events & Transportation oversees parking services. During fiscal year, 2016-17 all three buildings managed by Asset Management accepted cash and check payments only. Beginning in November 2017, the WW building began only accepting credit card payments for parking customers.

A judgmental sample of 27 parking revenue transactions from the fiscal year 2016-17 general ledger was selected to evaluate whether all cash receipts are properly recorded, deposited in a timely manner, and that adequate documentation (as required by the current parking services agreement) exists to support the accuracy of revenue remitted to Asset Management. A&AS reviewed applicable documentation, which included payment and deposit records, bank statements, monthly revenue statements, and parking service agreements.

Based on the work performed, the following was noted:

* In all 27 instances, selections were properly recorded.
* In all 27 instances, cash and check payment selections were properly processed and deposited in a timely manner.
* Test work indicated adequate documentation exists to support the revenue remitted, as described in the current parking services agreement for the WG building, for all 10 sample selections tested. However, for the WW and WC building test items, A&AS was unable to verify the types of documentation required to substantiate the revenue remitted for these 20 selections because copies of the signed parking agreements detailing supporting documentation requirements from the third-party vendors were not provided during the audit. Copies of the agreements were requested from Asset Management in March 2018.

Recommendation: Management should maintain copies of the current signed parking services agreements on hand to strengthen its financial oversight and to ensure a timely response to third-party requests.

Response: Asset Management inherits existing contract agreements from prior building owners at the time of closing. Often, copies of the service agreements are not provided from the prior owners. This is the case for WW. Asset Management requested and received a signed copy of the parking services agreement from the vendor. Asset Management will request copies of contracts processed through UCLA Purchasing.

Tenant Improvements

Audit test work included a review of 15 tenant improvement projects (four each from MP, WW, and WC, and three from WG) from fiscal year 2016-17 to verify that tenant improvement projects were monitored and completed timely, consistent with the lease agreement, and properly inspected by Asset Management staff and the tenant. Compliance with University policies and procedures was also examined. For expenditures exceeding the tenant allowance, A&AS verified that tenants were accurately recharged or billed and expenditures were properly recorded. In addition, tenant improvement project invoices were reviewed to verify they were properly approved for payment and accurately recorded in the general ledger. Further, applicable sections of the UC Facilities Manual were examined to verify that contractors were selected in accordance with UC requirements.

For one project tested, the documentation available for review did not clearly detail the expenditures that exceeded the tenant improvement allowance. As a result, A&AS was unable to verify that the tenants involved in that project were billed correctly, the charges were assessed against the correct tenant accounts, and the expenditures were recorded correctly. The following was also noted:

Tenant Inspections

The 15 tenant improvement projects tested were properly inspected and documented by Asset Management staff; however, one project did not include adequate documentation from the tenant confirming their satisfaction with the work prior to payment. One tenant verbally approved the final cost of the project and another tenant was included in an email about the cost of the project. These types of approvals provide insufficient documentation to ensure that the tenants were satisfied with the work prior to payment.

Recommendation: Management should verify that tenants are satisfied with any tenant improvement work performed prior to approving contractor payment to ensure that all work specified in the contract or work order is completed satisfactorily. Such a review should be clearly documented so that payment processing can proceed timely.

Response: Asset Management will ensure that written approval is obtained from every tenant at the end of the project indicating the work was done to his or her satisfaction. This approval will be required before final payment to the contractor is processed. This approval will not be required for progress payments to the contractor for a project. Asset Management implemented a new department policy, “UCLA Asset Management Tenant Improvement Approval Policy.”

Billing and Collections

The adequacy of internal controls over Asset Management’s billing and collections processes was evaluated to ensure that rent and escalation charges (if applicable) were calculated correctly and match the lease agreement, charges were billed/recharged to the tenants in a timely manner, and charges were properly recorded on the general ledger.

Tenant monthly billings and recharges are determined by the terms of the lease agreements. Non-UCLA tenants are billed on a monthly basis, whereas UCLA tenants are directly recharged to the applicable tenant fund/account at the end of each month.

A judgmental sample of 20 tenants (10 UCLA and 10 non-UCLA) was selected for testing from the fiscal year 2016-17 tenant lists from each of the four buildings. Documents reviewed included signed lease agreements, monthly billing statements, and estimated operating expense escalation statements. Collections aging reports, from April 2017 to June 2017, were also reviewed for all four buildings to verify that outstanding balances are monitored.

Based on the test work performed, the following was noted:

* Monthly rent and applicable escalation charges per the billing statements agree to the signed lease agreement.
* Monthly rent rates agree to the Policy Committee on Sales and Service Activities and Service Enterprises (POSSSE) approved rates (only for UCLA tenants that had a lease commence in fiscal year 2016-17).
* Escalation charges are properly calculated using the correct pro-rata share percent and the correct base year.
* Tenants are billed in a timely manner (only for non-UCLA tenants because UCLA tenants are recharged).
* Monthly rent and escalation charges are accurately recorded/applied to the appropriate general ledger accounts.

Discussions with Asset Management staff, review of supporting documents, and test work indicated that Asset Management has established adequate business practices related to billing and collections.

There were no significant control weaknesses noted in this area.

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