



July 25, 2024

To: Gerry Bomotti, Vice Chancellor
Planning, Budget, & Administration

Re: AB 179 Climate Initiative Funds Audit
Audit No. R2024-09

We have completed the audit of the California Assembly Bill No. 179 climate initiative funds in accordance with the University of California, Riverside Audit Plan. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Our report is attached for your review.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

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

Respectfully,

Gregory Moore
Director
Audit & Advisory Services

cc: Vice Chancellor for Research and Economic Development, Rodolfo Torres
Executive Director, Stephanie Flores
Ethics & Compliance Risk and Audit Controls Committee

UNIVERSITY OF CALIFORNIA, RIVERSIDE

AUDIT & ADVISORY SERVICES

AUDIT REPORT R2024-09

AB 179 CLIMATE INITIATIVE FUNDS

July 25, 2024

Performed By:

Ricardo Pardo Jr, Associate Auditor

Approved By:

Gregory Moore, Director



Executive Summary

Purpose and Scope

University of California Riverside (UCR) Audit & Advisory Services (A&AS) completed an audit of the California Assembly Bill No. 179 (AB 179) climate initiative funds. The purpose of this audit was to evaluate the design and implementation of internal controls and processes over the administration of the state climate initiative funds in accordance with statute AB 179. This audit was requested by Ethics, Compliance, and Audit Services (ECAS) and included in the fiscal year 2023-24 UCR internal audit plan.

The scope of this audit included a review of internal controls and processes in place during the time of the audit fieldwork, which was conducted during the months of April through June 2024. We evaluated the design, implementation, and effectiveness of internal controls and processes in place through discussions with employees, by reviewing documentation to corroborate and understand processes that support key controls activities, and by reviewing documentation to assess compliance with the legislative intent of AB 179.

Results

As of our audit fieldwork date, the campus has not expended any of the \$47 million in AB 179 funds and has instead used the \$15 million state appropriation from Assembly Bill 128, Budget Act of 2021 to cover the costs to date. As the same processes and internal controls will be utilized once spending of the AB 179 funds begins, A&AS reviewed the current internal controls and processes in place to ensure they are properly designed and operating effectively.

Based on the work performed, we concluded that internal controls over the administration of the state AB 179 climate initiative funds are operating effectively. Positive observations are discussed below in the observations section of the report.

A summary of the audit testing is provided in the Appendix. We did not identify any areas for improvement or recommendations as a result of our audit procedures. Therefore, no management corrective actions are necessary as a result of this audit.

Background

The California State AB 179, Budget Act of 2022 allocated \$47 million to support climate initiatives at the UCR campus. It is intended to further progress towards the State of California's climate goals. The funds are being managed by UCR Planning, Budget & Administration and will be utilized by UCR Planning, Design, and Construction to realize project objectives.

UCR established OASIS (Opportunity to Advance Sustainability, Innovation, and Social Inclusion), an innovation hub to drive regional economic development through solutions-driven applied research, innovation, entrepreneurship and workforce development around sustainability, clean technology, and social inclusion.

OASIS has garnered the support of many local and regional partners who recognize the transformative and economic potential of this initiative and has been awarded more than \$65 million in federal and state funding. This includes \$62 million in state general funds (including the \$47 million from AB 179) and \$3 million in federal grant funds to identify and secure a site for the establishment of the OASIS Clean Tech Park (OASIS Park), which comprises the first phase of implementation of the OASIS Innovation Hub. The campus has committed the full \$47 million of the AB 179 state funds to the construction of the OASIS Park. The state general funds have an encumbrance deadline of June 30, 2024.

The OASIS Park is a clean technology park anchoring diverse stakeholders interested in clean energy, sustainable transportation, agriculture, community health, and natural resources. The OASIS Park will be a center of research and innovation in climate change, air quality, and mobility aimed at the preparing the next generation of clean technology workforce for Riverside and the Inland Empire.

The OASIS Park would leverage UC Riverside's expertise in clean air, community health and health disparities, goods movement, clean energy, and energy storage to support regional programs and initiatives across Inland Southern California. The project is a collaboration between UC Riverside's Bourns College of Engineering Center for Environmental Research and Technology, the Office of Innovation and Entrepreneurship, and the University Extension to provide a space where university research intersects with local entrepreneurs and future clean tech workers. In order to construct the OASIS Park, the existing 196,641 gross square foot University Extension building, 54,000 square foot parking structure, and associated landscape and hardscape area will be demolished.

The OASIS Park project would provide approximately 40,000 to 50,000 gross square foot of new research (e.g., clean tech dry labs), maker space, service area, a classroom for University Extension that can accommodate approximately 40-90 people (depending on configuration), and office space for campus faculty and staff as well as community members. The campus seeks to leverage the flexibility of the progressive design-build delivery method to deliver the program in a cost-effective manner, including the option of improving building efficiency and reducing building square footage to maximize the project budget.

Progressive design-build is an application of the design-build delivery method where the process is phased or stepped. This delivery method seeks to synchronize the design team's efforts with the ideal construction schedule and to meet funding encumbrance deadlines. This approach provides opportunities to begin demolition drawings and demolition activities while other design work is ongoing. The progressive design-build delivery method allows the campus to actively collaborate with the design-build team to align project program and budget.

A request for qualifications was completed in August 2023. The request for proposals was released to the two short-listed prequalified teams in November 2023 to participate in the progressive design-build competition. In February 2024, a best value proposer was selected. The project is scheduled to begin construction in fall 2024 and is anticipated to be completed in fall 2026.

Observations

As of our audit fieldwork date, the campus has not expended any of the \$47 million in AB 179 funds and has instead used the \$15 million state appropriation from Assembly Bill 128, Budget Act of 2021 to cover the costs to date. As the same processes and internal controls will be utilized once spending of the AB 179 funds begins, A&AS reviewed the current internal controls and processes in place to ensure they are properly designed and operating effectively.

Based on the work performed, we concluded that internal controls over the administration of the state AB 179 climate initiative funds are operating effectively.

During the audit of the AB 179 climate initiative funds, we noted the following positive observations summarized in detail below:

- The campus has established the OASIS innovation hub, consistent with the legislative intent of the AB 179 funds to support climate initiatives, and fully encumbered and committed the AB 179 funds to OASIS before the state general funding encumbrance deadline of June 30, 2024.
- The campus properly followed the processes and procedures for capital planning & real estate approvals, and contractor payments as required by the UC Facilities Manual.
- A separate project code was set up to monitor and track the distribution of the climate initiative funds within the UCR financial system.
- Monthly budget and spending is monitored and tracked through monthly financial reporting and/or review of the financial system.

A summary of the audit testing is provided in the Appendix. We did not identify any areas for improvement or recommendations as a result of our audit procedures. Therefore, no management corrective actions are necessary as a result of this audit.

Appendix - Objective, Scope, and Methodology

Audit Objective – The purpose of this audit was to evaluate the design and implementation of internal controls and processes over the administration of the state climate initiative funds in accordance with statute AB 179. This audit was requested by ECAS and included in the fiscal year 2023-24 UCR internal audit plan.

Audit Criteria

During the audit planning, we identified the following criteria which was significant to the audit:

- California Assembly Bill No. 179, Budget Act of 2022
- California Assembly Bill No. 2046, University of California, Merced, and University of California, Riverside
- Regents Policy 8103: Policy on Capital Project Matters
- Delegation of President's Authority for Capital Project Matters – DA2629
- UC Facilities Manual: Capital Planning & Real Estate Approvals – Volume 2, Chapter 7
- UC Facilities Manual: Contractor Payments – Volume 5, Chapter 15

Audit Testing Completed

The scope of this audit included a review of internal controls and processes in place during the time of the audit fieldwork, which was conducted during the months of April through June 2024. We evaluated the design, implementation, and effectiveness of internal controls and processes in place through discussions with employees, by reviewing documentation to corroborate and understand processes that support key controls activities, and by reviewing documentation to assess compliance with the legislative intent of AB 179.

To fulfill the audit objective, we completed the following testing:

- Discussed processes and internal controls with key personnel from Planning, Budget & Administration.
- We obtained an understanding and reviewed documentation of the initiatives and capital projects funded through the climate initiative funds to verify compliance with the legislative intent of AB 179.
- We performed walkthroughs and reviewed documentation describing the processes and internal controls that support key activities for allocating and expending the climate initiative funds such as capital project approvals, budget and funding approvals, expenditure approvals, and the design-build delivery method.
- We reviewed documentation to ensure any delegations of authority were in accordance with UC policy.
- We reviewed documentation to verify whether the contractor payment process is operating effectively as required by UC policy.
- We reviewed documentation to verify if a separate project code was set up to monitor and track the distribution of the climate initiative funds within the UCR financial system.
- We reviewed documentation describing the processes and internal controls in place to monitor and track the climate initiative funds which included financial reporting and other mechanisms used to monitor budget and spending.

Evaluation of Internal Controls

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations – Effectiveness and efficiency of operations
- Reporting – Reliability of reporting for internal and external use
- Compliance – Compliance with applicable laws and regulations

We obtained an understanding of the internal controls relevant to the AB 179 climate initiative funds to evaluate the design and effectiveness in accordance with the Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework.

Based on our audit testing, we concluded that internal controls are properly designed and operating effectively.