



Limited Scope Audit

Proposition 1D Bond Funded Construction

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Table of Contents

- I. EXECUTIVE SUMMARY 2**

- II. INTRODUCTION**
 - Purpose 3
 - Background 3
 - Scope..... 4

- III. SUMMARY OF WORK PERFORMED AND RESULTS5**

I. EXECUTIVE SUMMARY

Internal Audit & Advisory Services (IAS) has completed a limited scope audit of campus compliance with Prop 1D Bond Fund requirements for construction projects at UCSC. Specifically, we conducted this review at the request of the UC Ethics, Compliance and Audit Services Office to determine whether Proposition 1D bond funds were expended only for approved projects; that projects were adequately managed to ensure our fiduciary responsibilities for these funds; and to verify that the campus had adequate project monitoring and reporting processes in place.

Overall, we verified that Prop 1D funding was used exclusively for projects approved for that funding. Further, we verified that quarterly reporting occurred timely in accordance with OP procedures. Our review of construction last year verified that the campus has adequate project management and has procedures to reasonably ensure funding for capital projects comply with funding restrictions and requirements.

During this review, we did not observe issues that required management corrective action. Refer to section III. Results of Work Performed and Results, for a more detailed account of work performed and conclusions reach for this limited scope audit engagement.

II. INTRODUCTION

Purpose

We conducted a limited scope review to determine whether Proposition 1D bond funds were expended only for approved projects; that projects were adequately managed to ensure our fiduciary responsibilities for these funds; and to verify that the campus had adequate project monitoring and reporting processes in place.

Background

Proposition 1D, Kindergarten-University Public Education Facilities Bond Act of 2006, was a measure to allow the state to sell \$10.4 billion of general obligations bonds for K-12 school facilities (\$7.3 billion) and higher education facilities (\$3.1 billion). With the approval of Prop 1D in November 2006, UC planned to allocate these bond funds to address the needs of its campuses and provide adequate accountability for the use of these funds. Bond accountability for projects in process and those that are completed is described on a public website (<http://www.bondaccountability.uc.ca.gov/sgpba.php>). The California Department of Finance, Office of State Audits and Evaluations, reported on its audit of UC's oversight of Prop 1D bond funds in August 2011 and stated:

Overall, UC awarded bond funds were in compliance with applicable legal requirements and established criteria. Additionally, UC has established several controls over state bond-funded projects, including:

- *Policies and procedures are in place for project review prior to commitment of funds and for the UC Office of the President's (UCOP) approval of the prioritized project list.*
- *Campus controls and procedures are in place to ensure project budgets and goals are met.*
- *Campus project oversight responsibilities are communicated among planning, budgeting, project management, and end-user departments.*

There were five UCSC projects approved for Prop 1D bond funding:

- Biomedical Sciences Facility
- Digital Arts Facility
- Infrastructure Improvements Phase 1
- Infrastructure Improvements Phase 2
- McHenry Library Addition and Renovation

The projects were funded according to project phases, namely preliminary plans, working drawings, construction and equipment. All the above projects are completed except for the equipment phase of the Biomedical Sciences Facility.

In FY2012, we completed a systemwide audit of construction management policies and procedures, including internal controls and processes related to the administration of construction activities, and specifically bidding, change order and funding requirements. Our report stated:

In general, Physical Planning & Construction (PP&C) maintained effective internal controls and processes over bidding, change order and funding requirements, and was in general compliance with applicable UC construction policies and procedures. PP&C together with other campus units maintained an adequate separation of duties and coordination to reasonably ensure funding for capital projects complied with funding restrictions and requirements.

The Biomedical Science Facility was the project we chose to review to accomplish the purpose of that systemwide audit.

Scope

To accomplish the purpose of this review we performed the following procedures:

- We reviewed Proposition 1D bond funds requirements and obtained the list of projects for which these funds were approved for UCSC.
- Interviewed campus management to understand procedures for allocating funds to projects, monitoring projects and reporting.
- Ran financial reports to identify the types of funds used for the approved projects and determine if those bond funds were used exclusively for those projects.
- Reviewed the audit report of UC's oversight of Proposition 1D bond funds conducted by the California Department of Finance, Office of State Audits and Evaluations to determine what the scope of that audit was and its relevance to our review.
- Reviewed the campus construction audit that IAD conducted in FY2012 that provided verification of the adequacy of certain procedures that our current review sought to address.

III. SUMMARY OF WORK PERFORMED AND RESULTS

Construction Projects funded with Prop 1D Bond Funds	
Work Performed	Results
<ul style="list-style-type: none"> • Obtained the list of construction projects approved for Prop 1D funding • Obtained fund FOAPALS for Prop 1D funds. • Ran InfoView reports for FY12 and FY13 (July-April) for capital projects and identified projects funded by the identified fund FOAPALS. We compared these projects with the list of approved projects. If there were projects funded that were not on the list we would mark these as a finding. 	<ul style="list-style-type: none"> • UCSC project phases completed: 1. Biomedical Sciences Facility (P,W,C); Digital Arts Facility (C,E); Infrastructure Improvement Phase 1 (W,C); Infrastructure Improvement Phase 2 (P,W); McHenry Library Addition and Renovation (W,C,E). P=preliminary plans; W=working drawings; C=construction; and E=equipment. UCSC project phase in process: Biomedical Sciences Facility (E). There is \$2,220,000 budgeted for equipment. • Neither Physical Planning & Construction nor Planning & Budget knew which projects were funded with Prop 1D funds. The Budget and Capital Resources Office at OP assigns fund numbers to state appropriations. When state appropriations arrive at UCSC they are identified as state appropriations and reference the chapter of the Higher Education Act, which describes the types of funds within the appropriation, including what they can be used for. This information is also included in the appropriation letter filed with OP. We did not ask OP for copies of these letters, as the state appropriation fund numbers were clearly identified as such and restricted in their use. • State appropriation funds were only used on Prop 1D-approved projects.

Reporting Procedures	
Work Performed	Results
<ul style="list-style-type: none"> Interviewed Capital Planning & Space Management (CPSM) and Physical Planning & Construction (PP&C) management. 	<ul style="list-style-type: none"> Formal Documentation: <ol style="list-style-type: none"> Approval of Project Planning Guide - CPSM Approval of Preliminary Plans – PP&C Approval of Working Drawings – PP&C Approval of Award of Construction Contract – PP&C Approval of Equipment List – CPSM Quarterly reports to the state – PP&C <p>The campus departments (CPSM and PP&C) create the base document, such as the Project Planning Guide, and submit it to OP. OP then provides its approval back to that unit. For example, OP approved the equipment list for the Biomedical Sciences Facilities and CPSM provided the approved list to PP&C, who then began purchasing the equipment and installing it.</p> <p>OP requires such documentation in the process of assessing projects and their progress. OP's approval is necessary for project funding as OP controls the funds. The fact that these projects were funded through OP indicates that it received the required documentation and gave its approval.</p> <p>UCOP has a new capital projects database for campuses to file their quarterly reports. PP&C completed the Q3 Jan-Mar quarterly report on this new system. The system only required the reporting on Infrastructure Improvements - Phases 1 & 2.</p>
Reviewed Previous Audits	
Work Performed	Results
<ul style="list-style-type: none"> Reviewed California Department of Finance, Office of State Audits and Evaluations' <i>Final Report – Audit of University of California's Proposition 1D Bond Funds</i> 	<ul style="list-style-type: none"> The state audit addressed UC compliance responsibilities and the adequacy of reporting and monitoring processes. Our review could add value by assuring that bond funds allocated for approved projects at UCSC were used only for those projects, and that project management ensures projects are adequately completed

<ul style="list-style-type: none">• Reviewed IAS's <i>Systemwide Construction Audit SC-12-04</i>	<p>within budget. Further, we can verify that quarterly reporting by the campus took place timely, as there was an issue reported in this audit concerning the need for more timely reporting on these bond funded projects.</p> <ul style="list-style-type: none">• Our audit last year reviewed construction management policies and procedures, including internal controls and processes related to the administration of construction activities, and specifically bidding, change order and funding requirements. We concluded that the campus complied with bidding and funding requirements, and that project management was adequate. Our review was based on the Biomedical Sciences Facility, a Prop 1D-funded project. <p>We concluded that the current audit (SC-13-03) could add value by verifying that Prop 1D Bond Fund were used exclusively for Prop 1D approved projects, and that quarterly reporting requirements were met.</p>
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