CAPITAL PROGRAMS

PROJECT MANAGEMENT

AUDIT REPORT #22-2102

Audit & Advisory Services

August 2022

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Background

In accordance with the Campus fiscal year 2021-22 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and business practices over key project management functions within the UCLA Capital Programs department.

*Capital Programs – Overview*

The Capital Programs department is responsible for conceptualizing, planning, designing, and constructing major capital construction and renovation projects at UCLA. Projects having total costs of $1,000,000 and above are considered major capital construction. Capital Programs develops financial strategies, obtains project approvals, reviews plans and specifications, completes environmental reviews, prepares and negotiates construction contracts, coordinates staging plans, and serves as a repository for project records and as-built plans.

The department’s mission is to create projects that “support the instruction and research mission of the University by providing a physical campus environment that fosters excellence, creativity, and a sense of community.” Capital projects are developed to take into account UCLA land use priorities, established physical designs, University policies and procedures, environmental and regulatory requirements, and community interests.

The Capital Programs department consists of the following two areas:

*Capital Planning and Finance* – responsible for capital program planning, environmental assessment, project budgeting, and project financial services including contracts administration. This area is led by an Associate Vice Chancellor who reports to the Vice Chancellor and Chief Financial Officer.

*Design and Construction* – responsible for project design, project management, and construction management activities. This area is led by an Associate Vice Chancellor who reports to the Vice Chancellor and Chief Financial Officer.

*Project Management Services – Overview*

Project Managers (PMs) are accountable for achieving the established project scope of work within the approved budget and on time for their assigned Capital Programs projects. Additional responsibilities include liaising with the campus community, building end-users, University administration, and regulatory agencies. During the planning, design, and documentation phases, the PM may be responsible for orchestrating the efforts of outside design professionals (architects and engineers) and various consultants in the development of architectural programs, master plans, preliminary plans, working drawings and specifications. Currently, PMs are also providing early support to Project Development, as needed, to assist with budget and schedule development. During the bid-award and construction phases, the PM is generally responsible for coordinating the efforts of contractors, construction managers, design professionals, and testing and inspection agencies. The PMs’ roles and responsibilities are broad and complex, can vary with each project, and are defined within the University of California (UC) Facilities Manual.

The Capital Programs Project Management Services unit consists of eight PMs and two administrative assistants that report to the Director of Project Management Services. The Director reports to the Associate Vice Chancellor of Design and Construction.

Purpose and Scope

The primary purpose of the review was to ensure that Capital Programs’ internal controls and procedures related to its project management processes are conducive to accomplishing its business objectives. The secondary purpose was to evaluate the adequacy of internal controls. Where applicable, A&AS also evaluated compliance with University policies and procedures.

The scope of the review focused on the following areas:

* Project Management
* Contract Modifications

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

Summary Opinion

Based on the results of the work performed within the scope of the audit, the Project Management Services unit’s internal controls and procedures are generally conducive to accomplishing its business objectives related to project management processes. However, controls and business practices could be further strengthened by implementing the following:

*Project Management*

* Management should ensure that contractors submit updated schedules regularly, as required by the UC Facilities Manual, so that the current status of projects is clear to all stakeholders and to help identify and mitigate any potential delays.

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

Audit Results and Recommendations

A sample of five major capital construction and renovation projects managed by Capital Programs was judgmentally selected for audit review and testing. All selected projects were in the construction phase as of January 2022.

***Table 1***

|  |  |  |
| --- | --- | --- |
| **Project Number** | **Project Name** | **Approved Budget** **(in Millions)** |
| 946259.01 | Lot 15 Residence Hall | $237.4 |
| 946258.01 | 10995 Le Conte Apartments | $209.6 |
| 940663.01 | LaKretz Botany Building Renovation | $38.7 |
| 946124.01 | Electrical Distribution Expansion Step 6C | $4.5 |
| 946101.01 | Veteran Avenue Sewer Improvements | $4 |

Source: Working Project Schedule, Capital Programs, January 2022.

Project Management

A&AS conducted interviews with Capital Programs management to obtain an understanding of departmental processes, procedures, and controls over the project management process. A&AS assessed existing controls through audit testing of invoices, pay applications, budget monitoring, and contract schedules.

1. Financial Management

To adhere to the approved budget and funding source restrictions, PMs review and approve invoices for payment on their assigned projects. The PM for a project signs and dates each invoice reviewed to evidence approval. After approval by the PM, the Capital Programs accounting unit processes the invoice for payment via BruinBuy.

A&AS performed audit testing to determine the adequacy of the controls over disbursements. Using the five sampled projects, A&AS judgmentally selected 15 Type Entry 41 expenditures (three from each of the five sample projects) from the detailed general ledger for fiscal year 2020-21 for review. The general ledgers were obtained from the fund summary by department 9910. Invoices, approvals, and additional supporting documentation were obtained from the SharePoint website. A&AS reviewed invoices and funding sources to verify that expenditures were allowable based on the funding source, approved by the PMs, and paid in a timely manner.

There were no significant control weaknesses noted in this area.

1. Pay Applications

Applications for payment are submitted by the general contractor on a monthly basis. Progress payments are reviewed by the PM and the University Representative (typically a site manager) prior to payment. Through regular status meetings with the project team and visits to the job sites, the University Representative determines what work has been completed. Once the University Representative signs the application for payment, it is forwarded to the PM for review and approval. The PM reviews the application for completeness and for the adequacy of supporting documents. Upon the PM’s approval, the application is sent to the Capital Programs accounting unit for payment.

A&AS audit fieldwork included a review of one pay application covering the period of March 2021 for each of the five sampled projects. A&AS verified that the general contractor submitted an itemized cost breakdown to support the amount requested on the application, and that the Certificate for Payment was approved by the PM and the University Representative. Audit testing also included mathematically verifying that the required 5% retention amount was properly withheld, as noted in the UC Facilities Manual. Based on testing performed, pay applications were approved by appropriate personnel, and the amounts paid were properly justified and supported.

There were no significant control weaknesses noted in this area.

1. Budget Monitoring

PMs use the Budget Tracking Report (BTR) to monitor each project’s budget. During the project planning phase, the project budget is determined and expenses are allocated into the project plant account. This process helps to ensure that planned expenditures are encumbered, and any unplanned expenditures are immediately apparent. On a monthly basis, the PM evaluates whether any adjustments to the budget are needed, and documents the projection on the BTR. Additionally, the project team and the general contractor meet to determine the project’s progress and the appropriate monthly payment. Each progress payment is reviewed and validated by the construction manager and PM before payment to ensure that the agreed upon milestone has been met. The PM also works with the client, construction manager, contractor, and management to make changes to the project to stay within the approved budget.

Based on discussions with management, and review of pertinent process documentation, departmental processes and procedures have been established to ensure adequate monitoring of project budgets.

There were no significant control weaknesses noted in this area.

1. Contract Schedules

The baseline schedule is the primary tool utilized by Capital Programs personnel to establish the project timeline that is approved by the University to manage and complete the project. Once construction begins, the general contractor submits an updated schedule on a monthly basis to verify whether the project is on track to be completed within the specified time frame. The construction manager reviews the schedule and discusses it with the contractor to address the impact of any obstacles on the project schedule and to find ways to mitigate delays.

Audit testing included a review of updated contract schedules for June 2021 for each of the five sampled projects, and discussions with management to verify that updated schedules are submitted to Capital Programs personnel on a monthly basis. For one project in the sample group, construction had not started in June 2021, so the updated schedule for October 2021 was reviewed instead.

Based on our review and test work performed, updated and approved contract schedules were properly submitted monthly for four of the five projects. However, due to the initial size and nature of the one remaining project, the project team decided that updated schedules for this project did not need to be submitted and that regular meetings would suffice. Although A&AS recognized that this project was unique for Capital Programs, the UC Facilities Manual (Volume 5, Chapter 14, Section 14.1) requires contract schedules to be updated monthly by the contractor. Utilizing the monthly progress schedules can help to ensure that all relevant parties are informed of the current project status. As a result, identification of potential issues can be made sooner thereby reducing the possibility of schedule delays.

Recommendation: Management should ensure that contractors submit updated schedules regularly, as required by the UC Facilities Manual, so that the current status of projects is clear to all stakeholders and to help identify and mitigate any potential delays.

Response: Capital Programs accepts the audit recommendation to ensure that contractors submit updated schedules on a monthly basis. In the referenced project, the base construction value was approximately $1M with the project scope primarily related to installation of electrical equipment. Due to the limited scope of this project, the project team utilized the baseline schedule and actively reviewed, strategized, and updated the schedule status on a weekly basis.

Contract Modifications

The UC Facilities Manual describes contract modifications as changes to the work that are required during construction and which can be accomplished through a change order or field order. A change to the scope of work can be proposed by the general contractor or directed by the University. A&AS conducted interviews with Capital Programs management to obtain an understanding of departmental processes and procedures governing the contract modification process. A&AS also performed testing of change orders and field orders to evaluate the established controls and determine their adequacy.

1. Change Orders

A change order is a formal document that details a change in the project’s scope of work. The PM and the construction manager work together to develop the change order and to negotiate the rate. Change orders are reviewed and signed by the general contractor, construction manager, and the PM. Following this review, the Capital Programs Finance unit reviews the change order to verify that the required funds are available. Finally, the Associate Vice Chancellor of Design and Construction reviews and approves the change order before it is paid.

The UC Facilities Manual requires that change orders exceeding $100,000 (“additive” change orders), be advertised for competitive bidding. Otherwise, justification in support of the decision not to competitively bid must be documented.

One executed change order was judgmentally selected from each sampled project for detailed audit testing. A&AS obtained and reviewed change order forms, cost proposals, change order requests, and additional supporting documents, where applicable. Based on our review of the five change orders, A&AS determined that the change orders represented a legitimate change in scope, were properly approved, were calculated accurately, and detailed supporting documentation was properly maintained.

To determine whether additive change orders were processed in accordance with UC Facilities Manual requirements, A&AS planned to judgmentally select one change order exceeding $100,000 from each of the five sampled projects for detailed review. However, because two of the projects did not have any additive change orders, a total of three change orders were reviewed and tested. Change order forms, justification documents, change order requests, and additional supporting documents were reviewed, where applicable. Based on our testing of the three change orders exceeding $100,000, we noted that none of the change orders reviewed had been competitively bid; however, adequate justification was provided of the facts and conditions why competitive bidding had not occurred in these instances.

There were no significant control weaknesses noted in this area.

1. Field Orders

Field orders are issued at the direction of the construction manager and are typically the result of unforeseen circumstances and emergencies. The field order provides the contractor with the approval to proceed with a certain action that the construction manager has determined to be critical or time sensitive to the project, regardless of whether the contractor is in agreement. After the field order is issued, then the construction manager will gather the necessary documents. If a cost is associated with the field order, it must be converted into a change order for the contractor to be paid.

Only one of the five sample projects had field orders as a part of the project file. Therefore, A&AS judgmentally selected three field orders from the one relevant project for detailed audit testing. Field order forms, corresponding change order forms, and additional supporting documentation were reviewed, where applicable. Based on our testing, field orders were determined to be issued appropriately, payment was not made until a change order incorporating that field order was issued, and detailed documentation was adequately maintained.

There were no significant control weaknesses noted in this area.

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