

RIVERSIDE: AUDIT & ADVISORY SERVICES

March 7, 2011

TO: Don Caskey, Associate Vice Chancellor/Campus Architect
Office of Design and Construction

RE: Office of Design and Construction
Business Operations Audit

Ref: Audit Report Number R2011-02

We have completed an audit of the Office of Design and Construction (ODC) business operations in accordance with the UC Riverside Audit Plan. Our report is attached for your review.

We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps additional fieldwork, as we deem necessary. Audit R2011-02 will remain open until we have evaluated the actions taken.

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

Michael R. Jenson
Director

Attachment

xc: UCR Audit Committee Members
ODC Assistant Vice Chancellor Racicot
ODC Director of Finance Koenig

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

AUDIT REPORT NUMBER R2011-02
OFFICE OF DESIGN AND CONSTRUCTION
BUSINESS OPERATIONS

MARCH 2011

Approved by:

Richard Melton
Principal Auditor

Michael R. Jenson
Director

Table of Contents

<u>Section</u>	<u>Page</u>
I. Management Summary	1
II. Introduction	
A. <i>Purpose</i>	2
B. <i>Background</i>	3
C. <i>Scope</i>	4
D. <i>Internal Controls and Compliance</i>	4
III. Observations, Comments, and Recommendations	
A. <i>Planning, Goals, and Objectives</i>	5
B. <i>Desk Manuals</i>	5
C. <i>Financial Management</i>	7
D. <i>Personnel Management</i>	9
E. <i>Payroll Processing and Record Keeping</i>	10
F. <i>Non-Payroll Expenditures</i>	12
G. <i>Equipment Management</i>	14
H. <i>Recharge Revenues</i>	14
I. <i>Cash Receipting</i>	15
J. <i>Records Management</i>	16

UC RIVERSIDE
OFFICE OF DESIGN AND CONSTRUCTION
BUSINESS OPERATIONS
INTERNAL AUDIT REPORT R2011-02
MARCH 2011

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the purpose and scope of the review, it appears in general that the ODC's systems of internal controls are operating satisfactorily and are primarily in compliance with University policies and procedures.

Positive observations included:

- The newly hired Director of Finance and Director of Construction Contract Administration of Document Control have implemented or are in the process of planned financial and administrative processes and procedures that will provide more effective controls over the ODC's business operations. Progress is also continuing with implementation of the new Capital Projects Management Information System (CPMIS) to meet the needs of providing more detailed and accurate financial reporting for capital projects and improve controls over construction contracting processes.
- The department is in the process of hiring a Director of Inspection and Quality Assurance who will have responsibility for developing more refined protocols and resources to provide for code accessibility and constructability reviews during the design process of projects. Furthermore, the group reporting to this new position will invest additional attention in inspections and commissioning of building systems during the construction phases of projects. Goals include (1) increasing the quality of construction phases of projects, (2) increasing the quality of construction documents thus reducing the amount of errors and omissions and decreasing the number and amount of construction change orders, and (3) improving quality assurance related to projects in the construction stage and decreasing the amount and gravity of building defects in projects at UCR.

The audit identified certain opportunities to strengthen internal controls and improve business practices. These included the following:

- Desk manuals for key positions that document existing and new administrative policy guidelines, contract administration procedures, and accounting processes should be completed for employees' use. (III.B)

- Adequate supporting documentation should be provided to ODC accounting personnel by campus departments making intra-campus charges to plant accounts. (III.C)
- Revisions to certain staff members' job descriptions should be completed and approved by Human Resources in order to reflect their current job duties and responsibilities. (III.D)
- The Distribution of Payroll Expense (DOPE) report should be signed and dated by the responsible Physical Plant employee to provide formal evidence that the review has been performed. Also, the supervisor of the employee responsible for submitting employees' Time Records to Physical Plant for further processing should maintain a copy of this employee's approved Time Record for subsequent agreement to the DOPE reflected leave time used since this staff member has access to his/her Time Record after approval. (III.E)
- Cash handling responsibilities for checks received should be distributed among staff in compliance with University cash receipting policies. (III.I)
- Procedures should be developed and implemented to ensure that hard copy records are protected from possible damages. Also, disaster recovery plans should be fully documented for computerized files and available for use by employees. (III.J)

Additional information on these and other matters is presented in the following section of this report.

II. INTRODUCTION

A. PURPOSE

UC Riverside Audit & Advisory Services (A&AS), as part of its fiscal year 2010-11 audit plan, conducted an audit of the ODC's business operations. This audit was primarily limited to a review of internal controls over the general administrative, contract administration, and accounting operations and tests of selected financial records.

B. BACKGROUND

The ODC is responsible for the design and construction of new buildings, renovation of existing buildings, renewal of building systems and facilities and deferred maintenance and seismic retrofit projects on the Riverside campus. The mission of the department is to provide the Riverside campus with a physical environment which supports the teaching, research and public service mission of the University. The ODC is committed to working in partnership with the faculty, campus administration, students, staff, and the community-at-large in response to the growing and evolving needs of the campus.

The primary goal of the ODC is a continuously improving environment, the physical counterpart to the high academic standards at the University of California and the aspirations of the Riverside campus and community. This mission embraces the Vice Chancellor of Finance & Business Operations' (VCFBO) mission that provides cost effective and high quality business, support, and administrative services that are vital to ensure excellence to UC Riverside enabling technology, and enhanced customer service.

In fiscal year 2010-11, a new organizational structure was implemented in the ODC. The primary objective of the new structure is to develop stronger leadership and reporting lines in each of four areas of the unit's activities – financial management, contractual and project file management, project management and design support, and construction quality assurance and commissioning.

This reorganization has required new leadership in the areas of financial management, construction quality assurance, and commissioning. To this end, new organizational positions have been created and have either been filled or are in the process of being recruited. Also, the new organization has resulted in a downsizing of support staff with the expectation that project managers will be accomplishing their own paperwork tracking, supporting and documenting their projects and will have a more hands-on interface to the new CPMIS under development.

The new unit, after reorganization, will have approximately twenty full time employees. In addition to overseeing their own Office operations, these staff members collectively support the planning, design and construction, inspection, and engineering of the physical environment of the Riverside campus. The ODC manages an inventory of \$100-\$200 million in active capital projects and is directed by the Associate Vice Chancellor/Campus Architect who reports to the VCFBO.

Departmental operations are funded primarily through revenues generated from recharges to capital projects. Expenditures for fiscal year 09-10 were almost \$2.8 million while overall funding approximated \$2.9 million resulting in a surplus of some \$100,000. The ODC projects a balanced budget of approximately \$2.4 million in fiscal year 10-11.

C. SCOPE

The scope of the audit included completion of internal control questionnaires pertaining to general administrative, contract administration, accounting and other risk areas. Discussions were held with various employees including the Director of Finance, MSO and the Director of Contracts Administration and responses were obtained for each questionnaire. Questionnaires covered the areas of administrative controls, budgetary controls, financial management, payroll/leave accounting, non-payroll expenditures, cash processing, equipment inventory, and records management. Detailed responses to internal control questions were also obtained that relate to the various contracts and agreements that are initiated and processed by departmental personnel.

In addition, the audit scope included tests of payroll and selected non-payroll financial transactions for the ODC's general operating accounts. Plant fund accounts were not tested as part of this audit but have been reviewed in detail in previous construction project audits that our office has performed in recent years. Tests included evaluating compliance with University policies, including the Facilities Manual, where applicable.

Our audit scope also included discussions with management that related to the new CPMIS. Work process flow charts pertaining to the CPMIS were also reviewed by our office.

D. INTERNAL CONTROLS AND COMPLIANCE

As a part of the review, internal controls were examined within the scope of the review. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories: (1) Effectiveness and efficiency of operations, (2) Reliability of financial reporting, and (3) Compliance with applicable, policies, laws and regulations.

Substantive audit procedures were performed in September and October, 2010. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS AND RECOMMENDATIONS

A. Planning, Goals and Objectives

The ODC had a comprehensive web site that included a mission/vision statement that outlined its basic purposes and principles.

Specific plans and goals, objectives, accomplishments and the future direction of the program had been documented in a program plan that was submitted to the VCFBO. Details of planned goals and objectives included implementation of a new organizational structure and the development and installation of the CPMIS to replace the current project management application.

The ODC had an organizational chart identifying current and proposed reporting relationships.

B. Desk Manuals

Desk manuals for key employees' use have not been prepared to reflect the ODC's operational work processes and procedures.

COMMENTS

The ODC is in the pilot stages of implementing the project management software portion of the new CPMIS. Once completed, this system will replace the current application with an integrated capital project management and fiscal package to meet the needs of providing more detailed and accurate financial reporting for future construction projects.

Flowcharts of new accounting processes and financial procedures were being developed as of the date of this report. In addition, discussions were being held that pertain to the full integration of the new application with the existing campus UCRFS.

The CPMIS project also includes an automated process component referred to as the Capital Request System (a campus "e-Form" application). This request system will provide for the tracking of all capital project requests, the sequestering of project funds, the redirection of non-capital requests to the Facilities (Physical Plant) Work Order system, as well as enhancing communication and documentation in general. Comprehensive flow charts had been developed that pertained to these work processes and based on our review appeared to provide a proper separation of employee responsibilities and compliance with policies and procedures outlined in the FM. Overall, the comprehensive CPMIS should facilitate the planning, management, scheduling, tracking,

oversight, and accounting of major capital projects. As discussed with management, detailed training for users will be imperative in converting to the new system and is currently being planned.

According to discussions held and management responses to questionnaires, although a variety of information folders are available to employees, formal desk manuals for staff use to carry out existing and future assigned responsibilities are planned but not completed. Staff responsible for ensuring compliance with University policies and procedures did have access to the appropriate campus specific and University system-wide policy/procedures, including the FM, according to staff responses to internal control questionnaires.

RECOMMENDATION

We recommend that desk manuals for key positions documenting administrative specific policies and/or procedures, i.e. employee recharge time reporting, existing contract administration work processes and accounting procedures, and new procedures and processes resulting from the conversion to the CPMIS be completed. Documentation of policies and procedures facilitates the training of new employees and ensures continuity of operations in the event of prolonged employee absences or turnover.

MANAGEMENT'S RESPONSE

We concur with the recommendation. Contemporaneously with work on the pilot project relating to the new CPMIS project, we are developing a user guide specific to the Office of Design and Construction's (ODC) processes and procedures. This user guide will address business rules that need to be followed for the Project Managers, Contracts Administration and ODC Accounting. We anticipate that the initial draft of this document will be prepared for the review of all of ODC management as well as University Accounting Department by June 15, 2011 with final approval by July 15, 2011.

Contracts Administration will develop specific Desk Manuals for its Contracts Specialist and other clerical staff which will specifically identify the duties, responsibilities and process requirements for each position. This will include flow charts of the following processes, among others, bidding documents preparation, contract award and administration processing including notice of selection, notice to proceed, certification for payments, purchase order and work order processing, change management processing, and filing system process (electronic and hardcopy). These flow charts will start with the initiation of the document request through the finalization of the document including all approval

requirements. These flow charts will be cross functional and therefore will include not only Contract Administration but also ODC Accounting and Project Management (from the perspective of the process of the documents). We anticipate this project to be completed no later than mid August 2011.

The Accounting function will also prepare Desk Manuals for its personnel that will specifically identify duties, responsibilities and process requirements for each position. The Accounting and Contract Administration Directors will work together in the preparation of the cross functional flow charts so that those being prepared by Contract Administration will be incorporated in the Accounting Desk Manuals. In addition, the Desk Manual will include a step by step process relating to the current project management system (CPMX) as this system will continue to be used through a large part of the 2011-2012 year due to the timeline for integration of the new CPMIS and the University Financial systems, which are not projected to be completed until late in that period. The CPMX manual will be completed by July 1, 2011, with the remaining portion of the Accounting Desk Manual being completed no later than mid August 2011.

C. Financial Management

Intra-campus charges to plant accounts are made by certain departments without formal communication of the expenses being provided to the ODC's accounting personnel for proper review and authorization.

COMMENTS

Aside from the day-to-day Office operations and their related financial accounts, ODC accounting personnel also have responsibility for review and reconciliation of campus plant accounts. The plant accounts are both large in dollar amount and voluminous in number of projects/pages in the UCRFS ledgers.

As reported in a previous audit report (R2010-05), appropriations and expenditures posted to the UCRFS for plant accounts were not being reviewed for propriety on a monthly basis. In addition, the in-house prepared financial statements that relate to capital projects were not being reconciled to the campus general ledger on a timely basis. Since this report was issued, the reconciliation of internal subsidiary records for capital projects was brought up-to-date, according to the Director of Finance and verification by our office.

Through discussions with the Director of Finance, we did note though that there are expenses related to work orders incurred for capital projects and

prompted by the Physical Plant department in addition to project charges made by the Computing and Communications department for which the ODC does not receive documents to fully support the expenses being charged. Rather, the ODC accounting personnel primarily only receive PAN notices showing the actual costs that were charged to the specific capital projects and thus are required to follow up with the respective departments for supporting documentation.

The ODC had prepared an annual financial plan for the department, which includes revenues and budgeted expenditures to cost category levels. In-house financial statements had been prepared and were being provided to the Associate Vice Chancellor/Campus Architect on a monthly basis. Processes and procedures were in place to ensure that the department's general operating accounts are being reconciled to the UCRFS system on a monthly basis.

As a part of this audit, we performed an analytical review of departmental operating expenses for fiscal years 08 through 10 and found satisfactory reasons for any significant variances noted over the past three fiscal years. There were no unusual patterns in spending from the Office's business operating accounts that operating management was unable to fully explain.

RECOMMENDATION

We recommend that the Director of Finance coordinate with the related campus departments to resolve the control weakness of expenses charged and recharged to capital projects without initial sufficient documentation being provided to ODC accounting personnel for proper review and approval.

MANAGEMENT'S RESPONSE

We concur with the recommendation. The two primary departments that we do not receive timely expense or recharge information from are Computing & Communications(C&C) and Physical Plant (PHP). We have requested C&C to follow our purchase order request process which will eliminate a portion of the control weakness as ODC will be aware of the expected expenditure prior to it being incurred and will be able to ensure adequate funds exist. Additionally, as a part of this process, we will request that C&C provide us with a copy of the invoice and underlying bill of lading or other proof of receipt prior to the payment being made. Discussions and planning is currently in process with resolution anticipated by April 1, 2011.

The PHP process relating to ODC's awareness of the expected expenditure has already been substantially eliminated as ODC now initiates/prepares

substantially all work order (WO) requests on PHP's work order system. Therefore, based on the WO amount, the availability of funds on the capital project has been checked and approved by ODC Accounting.

The more difficult item to address is the weekly recharges on the WO (support for the same) and monitoring of the amount recharged as compared to budget/authorized amount provided to PHP. Due to system limitations, PHP cannot provide invoices and it would be very time consuming for ODC to print each WO's recharge amount on a weekly basis. In addition, we believe PHP's accounting system and department do not have a mechanism to review actual recharges versus budgeted/authorized amounts in a timely manner. The system also allows amounts to be recharged in excess of budget or authorized amounts. We have met with PHP management on this issue without resolving the issue entirely. These meetings did result in PHP designing a report that reflects all WO's (including capital projects) that show the budget/authorized amount versus actual, and highlights those over budget and within 20% of the total budget/authorized amount. This is distributed by ODC Accounting to all Project Managers at least on a bi-weekly basis. ODC is uncertain if/when we will be able to receive weekly invoicing from PHP or if PHP will have the ability to track budget versus actual recharge amounts to ensure excess amounts are not recharged to capital projects without approved change order from the Project Manager. Discussions between PHP, ODC and the Vice Chancellor of Finance and Business Operations office concerning the implementation of mitigating controls are underway.

D. Personnel Management

Employee job descriptions' for certain administrative staff were not current.

COMMENTS

According to responses to internal control questions, employee job descriptions were on file but in some cases did not accurately reflect current job duties and responsibilities for certain employees. The Director of Finance confirmed that the Office is currently working on modifications to job descriptions for specific administrative employees and once completed will be sent to the VCFBO for review and approval and subsequently to Human Resources for final approval.

A Performance Management Certification Letter had been signed by the Associate Vice Chancellor/Campus Architect in August 27, 2010. This certification attested to actions taken within the ODC organization in connection with the fiscal year 09-10 Staff Performance Evaluation

Program. The letter did affirm that three employee evaluations had not been prepared but would be completed by the end of August 2010. Our office verified that these particular performance evaluations were accomplished and the Director of Finance confirmed that all employee performance appraisals were on file for the evaluation period of July 1, 2009 – June 30, 2010 and that each performance evaluation had been appropriately signed by the employee and their respective supervisor.

Bi-weekly meetings were being held with project managers and certain financial and contract administration staff members. When department-wide personnel related matters are involved, a staff meeting is called for all employees to attend. We discussed with management the need to have periodic, established staff meetings to discuss particular administrative/operational issues and problems.

RECOMMENDATION

We recommend that modifications to job descriptions be completed as necessary so that all employee job responsibilities and functions are accurately documented in their job descriptions, are attested to by the employee and approved by their respective supervisor. Revised job descriptions should be approved by Human Resources.

MANAGEMENT'S RESPONSE

We concur with the recommendation. Substantially all administrative job descriptions, other than the Director of Contract Administration, have been modified and we anticipate approval by Finance and Business Operations and Human Resources (HR) by March 15, 2011. After the approval is received, we will have each employee review the job description and attest to the same which will be documented via the employee and supervisor signing the job description. This will be completed by the end of April 2011 or when vacant positions are filled if later.

The Project Managers and other recharge job descriptions will be reviewed by the AVC and modified as required. If modification is required, the new job description will be forwarded to Finance and Business Operations and HR for approval and then attested to by the employee and supervisor as described in the preceding paragraph. This will be completed by July 15, 2011 or when vacant positions are filled if later.

E. Payroll Processing and Record Keeping

The review and reconciliation of the monthly DOPE report was not formally documented. Also, the employee responsible for submitting

Time Records to the Physical Plant department for processing had custody of his/her own timesheet after obtaining supervisory approval.

COMMENTS

Payroll processing and record keeping procedures were reviewed to determine if appropriate internal controls were in place. Time worked and leave records for the months of July and August 2010 for six employees were tested on a sample basis for accuracy and compliance with University policies.

The following conditions were observed:

- Payroll duties were adequately separated for control purposes. PPS online related responsibilities are being handled by personnel in the Physical Plant department. However, the supervisor of the employee responsible for submitting ODC employees' Time Records to the Physical Plant department for PPS processing was not maintaining a copy of this particular employee's timesheet. This could allow the preparer to alter his/her own timesheet after obtaining supervisory approval prior to vacation and sick leave used being entered into the automated system.
- The Distribution of Payroll Expense Report (DOPE) was being reviewed for accuracy and validity and reconciled to employee Time Records on a monthly basis by a Physical Plant employee. The review however was not being documented by signature and date of the responsible employee. There were no exceptions noted in our verification of the DOPE reports to leave postings made to employee Time Records. We were also able to reconcile employee monthly salaries and pay rates per the DOPE reports to the PPS without exception.
- Staff attendance and vacation/sick leave records, and appointment authorizations were prepared and on file to support hours worked, vacation/sick leave balances, and employment. Verification of employment contracts to the corresponding pay rate per the PPS was limited to new hires in the past two years. No exceptions were noted.

RECOMMENDATIONS

The reconciliation of the DOPE report should be signed and dated by the responsible Physical Plant employee to provide formal evidence that the review has been performed. Also, to improve internal controls, the supervisor of the employee responsible for submittal of ODC employees' Time Records to the Physical Plant department for further PPS processing

should maintain a copy of this employee's timesheet after formal approval. The Time Record copy should be used for comparison to actual leave hours taken as shown on the following month's DOPE report.

MANAGEMENT'S RESPONSE

We concur with your recommendations as it relates to signing and dating the reconciliation of the DOPE report. The reconciliation of the DOPE to the underlying time records is currently being done on a monthly basis by the payroll preparer in PHP. This individual is now making notation on the DOPE report evidencing her reconciliation. Additionally, ODC's Director of Finance is reviewing a SuperDope extract of the monthly payroll for reasonableness. Beginning in January 2011, the ODC Director of Finance is initialing the SuperDope download and this information is uploaded into the LRSS to provide formal evidence that the review has been performed. On the second matter, we have modified the process so that the employee who forwards to Physical Plant ODC's time records does not forward the record after the supervisor's review and signature. Instead the supervisor now forwards the time record directly to Physical Plant after signature. We believe this mitigates the issue addressed above and is an adequate change in process to improve controls relating to this matter.

F. Non-Payroll Expenditures

1. Departmental Operations

Non-payroll disbursement processing procedures were reviewed to determine if appropriate internal controls were in place. In addition, we performed tests of selected non-payroll expenditure transactions for proper authorization, propriety and compliance with University policies and procedures.

Based on management responses to internal control questions, purchasing related duties were adequately separated for control purposes. Given the fact that the Director of Finance and the MSO can initiate purchase transactions and also have UCRFS reconciliation responsibilities, we believe it is critical that PAN notices be carefully reviewed by online reviewers to ensure that purchases made by either of these employees represent bona fide expenses that pertain to ODC's operations. Discussions with management indicate that responsible employees have been instructed to carefully examine PAN notices prior to approval and therefore no recommendation will be made by our office. Signature authorizations were up to date on the online accountability structure, according to staff responses to questions.

Our office generated an expenditure listing of non-payroll transactions charged to ODC's general operating funds during the fiscal year 09-10 and the first two months of fiscal year 10-11. From this listing, 33 expenditures totaling approximately \$400,000 were judgmentally selected for detailed testing. Procurement transactions included space rental, travel, consulting services, low value purchases and other disbursements. In addition, several contracts/agreements were included in the sample that related to flood repairs made to campus buildings that were charged to a fund (69002) previously controlled by the Office. These expenses were subsequently transferred from this fund to a specific project or the Office is awaiting insurance reimbursement from the Risk Management Office for expenses incurred. Beginning fiscal year 10-11, minor capital projects (less than \$100,000) and non-capital projects are processed through the Physical Plant department and therefore this fund will no longer be utilized by the ODC. There was no equipment items purchased during the current year according to our review of the expenditure listing.

Overall, non-payroll expenses tested appeared to comply with University purchasing policies and in cases involving contractual agreements with the Facilities Manual (FM). In two cases, invoices were not formally approved by authorized signers. However, the Director of Finance has recently implemented procedures that, in our opinion, strengthens controls in this area and ensures, where required, that formal approvals (wet signatures) be made prior to further payment processing. Therefore a recommendation will not be made by our office.

2. Plant Funds

Our audit also included reviewing ODC employee duties and procedures relating to procurement activities specific to plant funds. Procedures reviewed included the initiation, processing, and payments made against various contracts/agreements, purchase orders, and change orders charged against construction project accounts. Testing of expenses charged to plant funds was not performed as part of this audit. Overall, we found duties to be properly separated and processes complied with University purchasing policies and the FM.

During the course of our review and to further strengthen controls over the processing of plant fund expenditures, management had ordered a new audit stamp to be placed on payment documents. Responsible employees, as evidenced by their initials or formal signature will attest that (1) the authorized payment(s) in aggregate

will not exceed the total contract/agreement amount, (2) the invoice or payment application form has been recalculated for accuracy and that there is no evidence of duplicate payments being made, (3) proper recording of the payment amount has been entered into the job cost system and the Certificate of Payment has been compared to the Application for Payment (applicable to General Contractor agreements), and (4) the invoice or Certificate of Payment has been properly authorized and forwarded to University Accounting for payment. The Director of Finance had begun initialing documents to indicate that the procedures, as described above, appear to have been performed by the accounting personnel. Another audit stamp already in use by the ODC requires that the responsible project manager and the Associate or Assistant Vice Chancellors sign the payment documents to provide formal evidence of their review and authorized approval of the requested payment.

G. Equipment Management

As of the close of fiscal year 09-10, the Office was accountable for one equipment item costing approximately \$7,000 (water purification system). However, upon further review, this equipment item did not belong to the ODC and should have been charged to a construction project. The MSO planned to coordinate with the campus Equipment Management Office to have this item removed from their inventory listing and transferred to the responsible campus building owner.

According to discussions with the MSO, duties related to equipment management had previously been performed by an employee who has since retired from the ODC. Since that time, related duties have not been reassigned within the Office. This observation has since been discussed with the Director of Finance and equipment management related duties will be assigned to current employees and properly separated for control purposes.

H. Recharge Revenues

The ODC is funded primarily through recharge revenues generated from internal fees charged to capital projects. Recharge rates are established by the ODC and reviewed and approved by the Campus Committee on Sales and Services Activities (COSSA). These rates are established so as to cover both the direct and indirect costs of operating the Office.

Costs of in-house services include financial management, contractual and project file management, project management and design support, and construction quality assurance and commissioning. These costs are

recovered through employees' direct hours worked on a project multiplied by recharge rates approved for their specific category of service provided to the project.

Labor costs associated with the projects are captured weekly and is uploaded into UCRFS that credits the Program Clearing Fund (69000) revenue account and charges the respective capital projects. Direct labor hours are submitted by employees through an automated Recharge Time Record.

Although a previously issued 2007 audit report indicated that controls were not adequate to substantiate that labor costs were being properly allocated to individual projects, the ODC has since employed a system of continuous positive time reporting as a basis for allocating costs. Based on our review and discussions with management, ODC employees are now charging real time to projects to ensure that costs are being properly allocated to the correct projects for which they work. Also, a detailed reconciliation process has been implemented by the Director of Finance whereby variances between Recharge Time Records and recordings in the UCRFS are now being reviewed on a timely basis. Reasons for adjustments or transfer of expenditures between the information contained on the Recharge Time Record and what was entered into the UCRFS is being adequately documented and corrected.

I. Cash Receipting

The Office had not established cash related duties associated with checks received.

COMMENTS

External income is no longer being collected for printed copies of construction plans and bid packets from prospective contractor bidders. Bidders now purchase directly from an outside vendor contracted by the ODC.

However, for various reasons, checks are at times received in the Office. Based on discussions held, personnel previously responsible for the handling and processing of these checks are no longer employed at ODC and as a result, specific cash receipting duties have not been effectively assigned to current employees.

RECOMMENDATION

We recommend that cash handling responsibilities be distributed among current employees and proper separation of duties established. Management should ensure that the Office is in compliance with cash receipting and processing procedures detailed in Business & Finance Bulletin #49 titled Cash and Cash Equivalents Received.

MANAGEMENT'S RESPONSE

We concur with the recommendation although the amount of cash receipts received (in check form) is immaterial (less than \$5,000 a year). Effective February 1, 2011 we will institute a policy in ODC that will require the individual that opens the mail (File Clerk) to post the cash receipt to a log by month. The check will then be forwarded to the Accounting Manager to be processed in the accounting records (provide an FAU) and then be sent to the cashier for processing and deposit. This will occur on the same day as the receipt of cash via mail. On a monthly basis the Director of Finance will review the log prepared by the individual noted above and reconcile the same to the University of California Riverside Financial System.

J. Records Management

The ODC has not completed implementation of a file access and return process for hard copy documents. Paper documents are not currently protected from damage and records are not maintained in accordance with the University records retention policy. Disaster recovery procedures for computer files have not been effectively established.

COMMENTS

The Office is currently implementing a new file access and return process for paper documents, which includes record cataloging and indexing, to improve monitoring and accountability and to ensure the preservation, retention, and control of documents. In addition, a planned protocol for saving and storing archived electronic mail messages is underway.

The effectiveness of the ODC's controls over University records, including computerized data and documents, was reviewed. The Office utilizes the VCFBO computer server. Internal applications currently used include CPMX (Plant Accounting) and FAMIS (Time Recharges).

Responses to internal control questions pertaining to records management included the following:

- “Official Records” are not being maintained according to the University’s “Records Disposition Schedules Manual”.
- Confidential records are being kept in specially locked files or password protected computer records. However, special protections from water, fire, and other damage have not been provided for construction projects’ paper files.
- Computers are adequately secured from theft and confidential files are accessible only to authorized personnel. The computer hardware had firewalls and virus protection.
- Back-up copies of computer-based records are being created at appropriate time intervals to ensure that damaged or lost files could be reconstructed. Important computerized records are being stored at an off-site location.
- Disaster recovery plans are in development within the department but have not been fully documented. Alternate sites have been established for processing when the system is down.

RECOMMENDATIONS

Due to the importance of construction project related files, we highly recommend that procedures be immediately established to provide protection for construction projects’ paper documents in the event of possible damages that may occur. Disaster recovery plans for computerized files should be finalized, fully documented, and available for use by all employees.

The proposed file access and return procedures for hard copy documents and planned protocol for saving and storing archived emails should be finalized and implemented. Management should ensure that records are maintained in accordance with the University’s “Records Disposition Schedules Manual”.

MANAGEMENT’S RESPONSE

1. Protection from Loss:

We concur with the recommendation. ODC is currently in the process of investigating methods to protect its vital records from loss in accordance with University Policy RMP-4. ODC’s situation is unique as, unlike other departments, most of ODC’s records are vital, must be

readily accessible, require long-term or permanent retention, and should physically exist in paper as well as electronic mediums. Based upon these circumstances ODC should maintain all paper documents for **active projects** in fireproof file cabinets that satisfy minimum UL heat tests for paper storage (1550 degrees external/350 degrees internal for 30 minutes and then able to sustain a 30 foot fall followed by an additional 30 minute stress test). Approximately 12-15 lateral file cabinets would be needed for active projects. Paper documents for **inactive projects** could be maintained in space rented at an offsite facility with similar fire protection. In accordance with University Policy RMP-4, the Director of Contracts Administration is completing a cost-benefit analysis to determine the feasibility of these fire protection measures. The objective is to have identified an acceptable method of protection by the end of June 2011 subject to budget approval by COSSA and the Vice Chancellor.

In the interim, to mitigate the effects of a possible loss, ODC has implemented the policy of scanning and electronically saving all originals of signed contract documents in “PDF” files to the VCFBO computer server, which has an offsite backup. The availability of these vital records in PDF files on the VCFBO computer server provides a method of obtaining authentic duplicates or replacements in the event of loss or unavailability. This procedure will continue as a backup measure, regardless of the determination made for paper documents.

2. Disaster Recovery and Response Procedures:

We concur with the recommendation. ODC currently stores its electronic files on the FBOIT server. FBOIT has a continuity plan in the event of a disaster. The Director of Contracts Administration will work with FBOIT to develop ODC’s disaster recovery plan for computerized files so that ODC’s plan is consistent with FBOIT’s disaster protocols. The Director of Contracts Administration will fully document the ODC plan and will also include a protocol for access and retrieval of the files and by who as some contain confidential information with restricted access. The Director of Contracts Administration will have a plan for ODC proposed by the July 15, 2011 with the objective of having a disaster plan accepted by August 31, 2011.

3. File Access and Return Procedure/Saving & Storing E-mails:

We concur with the recommendation. As described in the Comments above, ODC will continue with its implementation of the new file access and return process, which includes record cataloging and

indexing and vital and non-vital records retention, maintenance, and disposition practices in accordance with University Policy RMP-4. For active paper document files, ODC plans to complete implementation by June 30, 2011. For inactive paper document files, based upon current resource levels, ODC's completion date is uncertain due to limitations in resources.

ODC is currently developing an electronic mail policy for project files, and plans to submit the first draft of the policy to the Office of General Counsel for review in late April 2011. ODC's objective is to obtain approval and begin implementation in July 2011.