

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT & ADVISORY SERVICES**

**Campus Construction
Professional Services Agreements
Project #22-032**

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University of California
San Francisco

Audit & Advisory Services

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Brian Newman

Senior Associate Vice Chancellor UCSF Real Estate
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SUBJECT: Campus Construction Professional Services Agreements Review

As a planned internal audit for Fiscal Year 2022, Audit & Advisory Services (“A&AS”) conducted a review to assess the internal controls and procurement processes related to the execution of construction related Professional Services Agreements at UCSF Campus.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed and the preliminary draft report was provided to department management in August 2022. Management provided their final comments and responses to our observations in September 2022. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit and Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

Audit & Advisory Services conducted a review to assess the internal controls and processes related to the procurement process, specific to the execution of construction related Professional Services Agreements (PSAs) at UCSF Campus.

A PSA is an agreement between an outside party and the University for the provision of technical and unique functions performed by a consultant. The PSA is often used as a “blanket agreement” to contract with a consultant for a specific period of time. When the University is ready to use the consultant's services, an Authorization to Perform Services is executed. This Authorization specifies the services to be performed, the compensation, and the time frame in which the services will be performed.

State law requires construction design professionals and other specified consultants to be selected based on the procedures in the Public Contract Code¹ (PCC) as implemented by University policy. The UC Facilities Manual (FM) contains University of California policies, procedures, and guidelines for the selection of design professionals.² The PCC and FM requires that services are engaged on the basis of demonstrated competence and qualifications, and at fair and reasonable prices to the University. Additionally, the PCC and FM also requires that a Request for Qualifications (RFQ) is advertised when consultant services are reasonably anticipated to exceed \$100,000.

Non-compliance with the required procedures may result in conflicts of interests not being appropriately addressed, damage to the University's reputation, and potential legal complications. Additionally, if consultants are engaged in a non-compliant manner, then they may not have the qualifications required for the project.

At UCSF, PCC and UC policy requirements for consultant selection are documented in the UCSF Real Estate Project Delivery Playbook (Playbook).³ The Playbook is a resource for project management across the Real Estate Department. For contract amounts of \$85,000 or less, the Playbook does not require RFQ advertisement. The Playbook requires RFQ advertisement for projects where the contract value is expected to exceed \$85,000. This is a lower threshold from the requirements in the PCC and FM to help ensure that the appropriate procurement process is followed should the contract amount increase due to subsequent change orders.

Construction-related projects, including services related to professional services executed under a PSA are governed by the UCSF Real Estate department. For the period 7/1/2020 – 3/31/2022, 109 PSAs were executed with total original contract amount of \$6.6 million.

¹ Specific sections of the PCC related to consultant selection are Article 2.5. Contracts with Private Architects, Engineering, Environmental, Land Surveying, and Construction Project Management Firms (Sections 10510.4 - 10510.9) and Article 4 Conflicts of Interest (Sections 10515 – 10518).

² Consultant selection is discussed in Volume 3, Chapter 2 of the UC Facilities Manual.

³ Essential Information for hiring design professionals is described in Phase 3, Chapter 2 of the UCSF Real Estate Project Delivery Playbook.

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess the adequacy of internal controls and processes related to the procurement and execution of campus construction PSAs. The scope of the review covered campus PSAs executed between 7/1/2020 – 3/31/2022.

Procedures performed as part of the review included review of relevant regulations and UCSF policies and procedures; interviews with relevant personnel to gain an understanding of activities under examination; validation testing of a sample of PSAs to determine if consultants were engaged in a compliant manner.

For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in July 2022.

III. SUMMARY

Based on work performed, the design of the consultant selection and contracting process, as described in the UCSF Real Estate Project Delivery Playbook, complied with the requirements of the PCC and UC Facilities Manual. The PSAs reviewed used the appropriate version of the agreement and consultant engagements were supported by appropriate authorization forms. Additionally, all invoices reviewed were approved prior to being paid by Accounts Payable.

Opportunities for improvement exist in the areas of screening and selecting consultants, ensuring that PSA are appropriately authorized prior to the consultant providing services and documenting Conflict of Interest certification.

The specific observations from this review are listed below and in Section IV. Observations and Corrective Management Actions.

1. Practices to procure consultants do not always adhere to contract thresholds stated in internal policy.
2. Approved PSAs were not always in place prior to the commencement of work.
3. Review of invoices did not always detect errors prior to approval for payment.
4. The Conflict-of-Interest Statement on the consultant selection form could be enhanced.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS (MCAs)

No.	Observation	Risk/Effect	Recommendation	MCA
1	<p><i>Practices to procure consultants do not always adhere to contract thresholds stated in internal policy.</i></p> <p>Of the 24 PSAs reviewed, two contracts for \$100,000 each (both issued by Building Permit Services) did not follow the Request for Qualifications (RFQ) procurement process as stated in the UCSF Real Estate Project Delivery Playbook.</p> <p>Per discussion with management, Building Permit Services (BPS) only uses the RFQ process for contracts with an expected value more than \$100,000 and does not need cushion for change orders. However, this practice is in conflict with the internal policy of the department.</p> <p>Per the UC Facilities Manual (FM), University policy requires that a RFQ is advertised when consultant services are reasonably anticipated to exceed \$100,000. At UCSF, policy requirements for consultant selection are documented in the UCSF Real Estate Project Delivery Playbook (Playbook). The Playbook requires RFQ advertisement for projects where the contract value is expected to exceed \$85,000. This is a lower threshold from the requirements in the FM to help ensure that the appropriate procurement process is followed should the contract amount increase due to subsequent change orders.</p>	<p>If appropriate internal policy is not observed, then compliant procurement processes may not be followed.</p>	<p>Management should specifically address if exceptions to internal policy are allowed and how such exceptions are reviewed and approved by appropriate personnel.</p> <p>Training should be provided to help ensure Project Managers are aware of internal policy requirements, restrictions and thresholds.</p>	<p>Action Plan: The Project Managers will be trained on the requirements and expectations of UCSF Real Estate Leadership related to contract thresholds and controls to ensure compliance to our internal policy.</p> <p>Responsible Party: Associate Vice Chancellor, Campus Design and Construction</p> <p>Target Completion Date: January 31, 2023</p>
2	<p><i>Approved PSAs were not always in place prior to the commencement of work.</i></p> <p>Of the 24 PSAs reviewed, 11 had invoices where the invoice date or the period of service on the invoice preceded the date the PSA was approved.</p>	<p>If consultants are allowed to commence work prior to the approval of a PSA, then scope of work may not be appropriate</p>	<p>Management should develop processes for tracking the expiration dates of PSA agreements to ensure that</p>	<p>Action Plans: A: Campus Design and Construction with assistance from the Contracts unit will develop a process for tracking project specific PSAs.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>There appeared to be two main causes for the observed cases as listed below:</p> <ol style="list-style-type: none"> 1. There was a lack of awareness that prior agreements with the consultants had expired. 2. The PSA approval process took longer than anticipated. As time was of the essence and hard deadlines had to be met, the consultants were allowed to move forward without an approved PSA in place. <p>None of the invoices were paid prior to the PSA and the Authorization to Perform Professional Services being approved.</p>	<p>and other key requirements such as time frame, billing rate, confidentiality and indemnification may not have been agreed upon. Additionally, delayed payment on these invoices may adversely affect vendor relationships and impair UCSF's ability to attract qualified consultants for future projects.</p>	<p>contracts are renewed timely.</p> <p>Management should ensure appropriate planning time frames are built in for new PSAs to ensure that contract agreements are approved and in place prior to work commencing.</p> <p>Training should be provided to help ensure Project Managers are aware of time frames required to approve PSAs.</p>	<p>B: The Contracts unit will develop a tool to track the expiration dates of Blanket PSAs that are processed by the Contracts unit.</p> <p>C: Real Estate will develop template timelines, train staff, and publish associated documentation.</p> <p>Responsible Party: Associate Vice Chancellor, Campus Design and Construction</p> <p>Target Completion Date: May 30, 2023</p>
3	<p><i>Review of vendor invoices did not always detect errors prior to approval for payment.</i></p> <p>Of the 24 invoices reviewed, two had errors that were not detected prior to approval for payment:</p> <ol style="list-style-type: none"> 1. One invoice was applied to the wrong PSA for the consultant. 2. The dates of service on another invoice were incorrect. <p>Requirements for invoice approval are described in the UCSF Real Estate Project Delivery Playbook (procedure PC03.02.0). This procedure, requires that the consultant invoice is reviewed for</p>	<p>If invoice review is not sufficiently detailed, then the payment may not be applied to the appropriate agreement.</p>	<p>Additional information (such as total billed, remaining amount of the agreement and UCSF Agreement ID) should be required on vendor invoices to help ensure that they are applied to</p>	<p>Action Plan: The Project Managers will be trained on the requirements and expectations of UCSF Real Estate Leadership.</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>accuracy, including the correct project is referenced, the work was completed and the dates on the invoice are accurate.</p>		<p>the appropriate agreement. Additionally, Invoices should be carefully reviewed prior to approval to help ensure that information on the invoice is correct.</p> <p>Training should be provided to help ensure Project Managers are aware of the information that should be reviewed on vendor invoices.</p>	<p>Responsible Party: Associate Vice Chancellor, Campus Design and Construction</p> <p>Target Completion Date: January 31, 2023</p>
<p>4</p>	<p><i>The Conflict-of-Interest Statement on the consultant selection form could be enhanced.</i></p> <p>The Public Contract Code and the UC Facilities Manual have prohibitions against financial conflict of interest (COI) in contracting with consultants. Per the UCSF Real Estate Project Delivery Playbook, the Consultant Selection Compliance Verification Form (PC03.02.00F) is used to substantiate policy and statutory compliance, the appropriateness of source, and price reasonableness. The consultant selection form is completed by the Selection Manager and Selector to document that the consultant was selected and engaged in a compliant manner. Part IV “Conflict of Interest Statement” of the form contains a certification that there is no COI; or, if such a statement cannot be certified, then an explanation as to such circumstances. However, the form does not</p>	<p>Without a positive action affirming the absence a conflict of interest, such a certification may be overlooked in the completion of the Compliance Verification Form. It may not be apparent if there is no COI</p>	<p>A positive action affirming the absence of COI (such as a check box or required initials of the appropriate section) should be added to the Consultant Selection Compliance Verification Form. This will help ensure that the</p>	<p>Action Plan: The Consultant Selection Compliance Verification Form will be updated to include a check box that will ensure compliance with the COI requirement.</p> <p>Action Complete</p>

No.	Observation	Risk/Effect	Recommendation	MCA
	require an affirmative response from the Selection Manager or the Selector that there is no COI present upon completion of the agreement.	or if the certification was overlooked.	personnel responsible for the consultant selection and approval have review the COI compliance requirement and positively affirm the absence of COI (or otherwise provide an explanation).	

APPENDIX A

To conduct our review the following procedures were performed for the areas in scope:

- Reviewed relevant sections of California's Public Contract Code:
 - Article 2.5, Contracts with Private Architects, Engineering, Environmental, Land Surveying and Construction Project Management Firms (10510.4 - 10510.9).
 - Article 4, Conflicts of Interest (10515 – 10518).
- Reviewed UC policies: UC Facilities Manual, Volume 3, Chapter 2: Consultant Selection.
- Reviewed UCSF policies: UCSF Real Estate Project Delivery Playbook, Volume 1, Phase 3, Chapter 2: Consultant Selection.
- Interviewed department personnel and conducted walkthroughs with personnel in the following functions to understand the processes and identify any gaps in controls:
 - Campus Design & Construction
 - UCSF Real Estate Contracts
 - UCSF Real Estate Finance, Administration & Operations
 - Supply Chain Management Accounts Payable
- Reviewed a sample of PSAs to determine if the appropriate version the agreement was used and a sample of related invoices to determine if they were approved prior to being paid by Accounts Payable.