CAPITAL PROGRAMS

PROJECT CLOSEOUT

AUDIT REPORT #24-2101

Audit & Advisory Services

September 2024

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Background

As part of the Campus audit plan for fiscal year 2023-24, UCLA Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated procedures established to facilitate and govern the capital project closeout process within the UCLA Capital Programs (CP) department.

Closeout Process – Overview

The closeout phase can be defined as the period (1) from when the project owner can occupy the structure for its intended use and completion of all contractual requirements (2) to the point when the contractor receives final payment and release of retention. As a result, project closeout is a sequence of tasks performed at the end of construction that prepares the project for final acceptance by the owner. The closeout process is synchronized to, and driven by the construction contract and includes negotiating final change orders, completing punch list items, release of final payment and retention to the general contractor, and maintaining builders risk insurance. It also includes obtaining required documentation such as operating and maintenance manuals for equipment systems, warranty information, and “as-built” drawings. Closeout accounting processes include reconciling and closing out of project accounts and funds, finalizing project capitalization, and preparing and updating Capital Improvement Budgets (CIB) at selected project milestones. Process monitoring is performed by project managers through ongoing meetings with the general contractor; review of various project schedules, and budget and expense reports; and effort coordination of the overall construction process with CP staff.

Closeout processes facilitate project commissioning and ensure fulfillment of contractual and legal obligations before releasing final payment to the contractor. The process can be extensive depending on a project’s size, complexity, duration, and physical environment.

The CP “Design and Construction Services” unit and “Capital Planning and Financial Services” unit include staff that specialize in design, engineering, construction, and management services as well as project development, finance, and contracts and records management services. Each specialized area is managed by a Director that reports to an Associate Vice Chancellor.

Purpose and Scope

The primary purpose of the review was to ensure that Capital Programs’ organizational structure and internal controls surrounding its project closeout processes and procedures are conducive to accomplishing its business objectives. Compliance with University policies and procedures was also evaluated where applicable. The scope of the audit focused on the following:

* Compliance with Selected UC Facilities Manual Policies
* Project Tracking and Monitoring for Closeout
* Reconciliations
* Project Funding and Spending

The audit 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, Capital Programs’ organizational structure and internal controls are generally conducive to accomplishing its business objectives related to project closeout processes; however, internal controls and operational processes could be strengthened by implementing the following.

*Post-Project Capital Improvement Budget Filings*

* Management should ensure that Post-Project Capital Improvement Budgets (CIBs) are submitted no later than 60 days after the Notice of Completion for all projects over $10 million.

*Warranty Walk-Through Documentation*

* Management should ensure that warranty documentation for projects is retained and retrievable to ensure compliance with UC Facilities Manual Chapter 19.3.4.

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

Audit Results and Recommendations

| **#** | **OBSERVATION and CRITERIA, where applicable** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| **Capital Improvement Budgets (CIBs) – Required Filing** | | | |
| Capital Improvement Budgets summarize project expenditures by phase (planning, working, construction) and functional costs (referred to as “P” categories). CIBs also detail project funding sources and provide analytical data. Departmental workflows document all steps necessary to file Capital Improvement Budgets. Capital Improvement Budgets are prepared by project managers, reviewed by the Director of Financial Services and Capital Planning staff, and signed by the Associate Vice Chancellor of Capital Planning and Finance before submission to UCOP. All projects at substantial completion are reported to UCOP via the Major Capital Projects Reporting Portal and circulated for signatures using DocuSign. Capital Improvement Budgets are subject to UC Facilities Manual policies. Compliance with UC Facilities Manual Chapter 7.6.1 is contingent upon Notice of Completion Dates and Post-Project CIB Filing Dates. For all capital projects over $10 million, Post-Project CIBs must be submitted within 60 days of the filing of the Notice of Completion, or Certificate of Occupancy date if no Notice of Completion filed.  Audit work included the following:   * Conducted discussions with the CP Director of Financial Services to obtain an understanding of Capital Improvement Budget (CIB) filing procedures. * Obtained a listing of recently-closed projects from 2021 to 2023 with project numbers and names, Notice of Completion dates, Certificate of Occupancy dates, and Post-Project CIB submission dates. * A&AS selected a judgmental sample of 10 projects, which considered recently closed projects from 2021 to 2023, appropriation amounts, and projects managed by Capital Programs and Delegated Entities. * A&AS identified five projects over $10 million. For these five projects, A&AS calculated the number of days between the Notice of Completion date and Post-Project CIB submission date to verify compliance with UC Facilities Manual Chapter 7.6.1. * Per UC Facilities Manual Chapter 7.6.1, “Project close-out capital improvement budgets (“Post-Project CIBs”) for projects over 10 million [must be submitted] within 60 days of the filing of the Notice of Completion (or Certificate of Occupancy if there is no Notice of Completion).” | | | |
| 1. | Post-Project CIB Filings  Three of the five projects sampled had Post-Project CIBs for projects over $10 million that were submitted more than 60 days after the Notice of Completion. The CIBs were filed on July 30, 2020, May 21, 2021, and September 30, 2021 for these three selections. These three late submittals were filed 190 days, 633 days, and 919 days after the Notice of Completion.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  UC Facilities Manual Chapter 7.6.1, “Project close-out capital improvement budgets (“Post-Project CIBs”) for projects over 10 million [must be submitted] within 60 days of the filing of the Notice of Completion (or Certificate of Occupancy if there is no Notice of Completion).” | Management should ensure that Post-Project Capital Improvement Budgets (CIBs) are submitted no later than 60 days after the Notice of Completion for all projects over $10 million. | Management Action Plan: Management agrees and will ensure that CIBs are submitted no later than 60 days after the Notice of Completion for all projects over $10 million.  When a Certificate of Substantial Completion (SC) is issued, Contracts informs Capital Planning.  In conjunction with the project manager, a CIB is prepared, reviewed, and circulated through DocuSign.  Capital Planning also monitors schedule milestones in the UCOP Major Capital Report database.  If the SC date has passed without a certificate being issued, Capital Planning contacts the project manager to understand the reason for the delay and updates the expected SC date.  Responsible Party: Assistant Director, Capital Planning.  Target Date: Process is currently in place. |
| **Project Tracking – Monitoring Projects for Closeout** | | | |
| Project Management and Capital Programs Finance play crucial roles in tracking and monitoring projects for closeout. Project managers hold the lead responsibility to closeout projects and are assigned CAPSTAR workflows. CAPSTAR workflows log action items and delineate employee responsibilities for projects. Concurrently, the Director of Financial Services reviews aging reports from CAPSTAR. These reports contain fields including project numbers, project names, and “last activity date”.  The Director of Financial Services filters the “last activity date” field to sort projects in chronological order. The Director of Financial Services and Capital Programs Finance staff inquire with respective project managers to determine whether these projects may be closed out. Projects may remain open due to financial, insurance, and warranty items. While financial staff are encouraged to review these accounts, the volume of plant accounts makes closeout of projects a shared responsibility.  Audit work included the following:   * Conducted discussions with the Director of Financial Services to obtain an understanding of CAPSTAR aging reports and related review procedures. * Obtained a sample CAPSTAR aging report and identified fields used to sort projects in chronological order.   There were no significant control weaknesses noted in this area. | | | |
| **Warranty Walk-Throughs** | | | |
| Per UC Facilities Manual policies, capital projects require a warranty walk-through, or inspection, 11 months following substantial completion or final completion of the project. The warranty walk-through serves to note any building/project defects, review guarantees and maintenance contracts, and provides the contractor with a listing of issues for correction. Construction managers track the status of warranty walk-throughs using CAPSTAR workflows and meet with the general contractor to address issues as they are reported by building occupants. Warranty items are continuously addressed up to 11 months following substantial completion of a project. Project managers allocate time to address warranty walk-through items in category “P5” of Budget Tracking Reports. Category “P5” includes the design professional’s agreement, which typically retains 1% of the design fee for warranty items.  Audit work included the following:   * Conducted discussions with the Assistant Director of Project Management to obtain an understanding of warranty walk-through procedures. * Obtained a listing of recently closed projects from 2021 to 2023 and selected a judgmental sample of 10 projects. * For the 10 sampled projects, A&AS obtained meeting minutes, observation reports, and substantial completion dates. A&AS examined each of these dates to verify whether warranty walk-throughs were completed in accordance with UC Facilities Manual Chapter 19.3.4. * Obtained Budget Tracking Reports for the 10 sampled projects and verified that each report contains category “P5” which is used to allocate time for warranty walk-through items. | | | |
| 2. | Warranty Walk-Through Documentation    Warranty documentation could not be obtained for one of 10 projects reviewed. As such, A&AS was unable to determine whether warranty walk-throughs were completed for this project in accordance with UC Facilities Manual Chapter 19.3.4.  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  **Criteria:**  Per UC Facilities Manual Chapter 19.3,” During the eleventh month following substantial completion or final completion, University conducts a walk through for the purpose of detecting deficiencies and reviewing guarantees, warranties, bonds, and service and maintenance contracts. A list of all deficiencies noted must be issued to the contractor along with instructions to make corrections as required and in accordance with the terms of the General Conditions of the construction contract.” | Management should ensure that warranty documentation for projects is retained and retrievable to ensure compliance with UC Facilities Manual Chapter 19.3.4. | Management Action Plan: Management agrees. Prior to final 100% release of Design Professional fees, the Construction Manager (CM) and Project Manager (PM) will notify the Design Professional to schedule the 11-month warranty walk and submit final report. Warranty documentation is retained and retrievable in SharePoint.  Responsible Party: Project Manager  Target Date: Process is currently in place. |
| **Reconciliation of Post-Project Capital Improvement Budgets (CIBs)** | | | |
| Project managers use Budget Tracking Reports and CP505 reports to reconcile Capital Improvement Budget (CIB) amounts. Budget Tracking Reports summarize project expenditures by function and monitor variances between budgeted and actual expenditures. CP505 reports detail project expenditures, encumbrances, and committed funds by purchase order and summarize expenditures by function. Both CP505 reports and Budget Tracking Reports are generated using data from the UCLA general ledger. Appropriation amounts must agree among CIBs, CP505 reports, and Budget Tracking Reports. In the event amounts do not agree, project managers review invoice data to resolve discrepancies.  Audit work included the following:   * Conducted discussions with the Assistant Director of Project Management to obtain an understanding of Capital Improvement Budget (CIBs) reconciliation procedures. * A&AS obtained a listing of recently closed projects from 2021 to 2023 and selected a judgmental sample of 10 projects. * For the 10 sampled projects, A&AS obtained a project listing with appropriation amounts, CP505 reports, and Budget Tracking Reports. * Verified that CIB total appropriation amounts, per the project listing, agreed to total appropriation amounts on associated CP505 Reports and Budget Tracking Reports.   There were no significant control weaknesses noted in this area. | | | |
| **Capital Improvement Budget (CIB) Estimates** | | | |
| Capital Programs Finance personnel consult with respective project managers to discuss outstanding encumbrances and funds needed to complete remaining punch list items. Estimates for each project vary due to differences in project size and scope. CIBs are submitted to the Associate Vice Chancellor of Capital Planning and Finance with a supporting CP505 report to ensure that financial data and related estimates are reasonable.  Audit work included the following:     * Conducted discussions with the Director of Financial Services to obtain an understanding of CIB estimates and related procedures. * Obtained sample Capital Improvement Budgets (CIB) and CP505 reports and verified that total appropriation amounts were in agreement with one another.   There were no significant control weaknesses noted in this area. | | | |
| **Approved Project Spending – Project Expenditure Approvals** | | | |
| Capital Programs project managers review invoices and approve project expenditures for payment. These invoices are reviewed by Capital Programs Finance personnel and then processed for payment by the UCLA Accounts Payable department.  Audit work included the following:   * Conducted discussions with the Director of Financial Services and Assistant Director of Project Management. * Obtained associated UCLA Detailed General Ledgers for a judgmental sample of 10 projects. * Selected a judgmental sample of 11 project expenditures for audit testing and obtained associated invoices for each sample transaction. * Verified that project expenditures and related invoices were approved by project managers prior to payment and agreed invoice amounts to the UCLA General Ledger.   There were no significant control weaknesses noted in this area. | | | |
| **Approved Project Funding – Residual Funds Return Process** | | | |
| Upon completion of a project, project managers may request from the Capital Programs Financial Services unit to return residual funds to the project owner. The Director of Financial Services reviews the request to return residual funds and reviews the CP505 reports to determine whether excess project funds should be returned to the relevant campus department. If funds are to be returned, Capital Programs Finance staff prepares journal entries – transfer of funds (TOFs) – to the relevant campus departments. TOFs are initially approved by the Capital Programs Finance Manager and subsequently reviewed by the Associate Vice Chancellor of Capital Planning and Finance as part of departmental workflows. The workflow includes a CP505 report and a copy of the TOF. The Associate Vice Chancellor of Capital Planning and Finance has the final sign off on this workflow and ensures that amounts and fund sources are appropriate.  Audit work included the following:   * Conducted discussions with the Director of Financial Services to obtain an understanding of Capital Improvement Budget (CIB) residual funds and procedures for returning excess funds to campus departments. * Obtained a listing of recently closed projects from 2021 to 2023 and selected a judgmental sample of 10 projects. * Obtained CAPSTAR Workflows, Plant Account Funding History Reports, CP505 reports, Capital Improvement Budgets, and TOFs to determine whether residual funds were appropriately returned to campus departments. * Verified that residual fund amounts agreed between CP505 appropriation amounts and TOF entries. * Examined dates of CP505 reports and TOF entries to determine whether residual funds were returned on a timely basis. * Reviewed pertinent accounts for TOF entries, email correspondence, and determined that supporting CIBs were reviewed/approved by the Associate Vice Chancellor of Capital Planning and Finance to verify that residual project funds were returned to the appropriate campus department and funding source.   There were no significant control weaknesses noted in this area. | | | |

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