

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
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October 24, 2013

ASSOCIATE VICE PRESIDENT WYLIE

Subject: Final Audit Report Capital Projects Audit of Approval Process for the Pilot Phase of “Delegated Process” – No. P13A009

Attached please find the final report for: Audit Project No. P13A009: Capital Projects Audit of Approval Process for the Pilot Phase of “Delegated Process”. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions, please feel free to contact me at 510-987-9646 (e-mail: Matthew.Hicks@ucop.edu)

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Audit Director

Attachment

cc: Senior Vice President Vacca
Executive Vice President Brostrom
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UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
INTERNAL AUDIT SERVICES

CAPITAL PROJECTS
AUDIT OF APPROVAL PROCESS FOR THE PILOT PHASE OF "DELEGATED PROCESS"
Audit No. P13A009
August 2013

Work Performed by:
Susana Atwood, Internal Audit Contractor

Background

Overview: The Delegated Process Pilot for the approval of capital projects was initiated by recommendations of the Monitor Group at the time of the restructuring of the University of California Office of the President (UCOP) from 2007-2008. In February 2008, the Capital Projects Working Group presented the Delegated Process to the Regents' Committee on Grounds and Buildings as a way to streamline the Capital Projects approval process for the Regents. With implementation of this new process, the expectation was that the Regents would then have additional time to review strategic goals for the Capital Planning Process. The Regents item "Acceptance of the Report of the Capital Projects Working Group and Approval of Pilot Phase of Process Redesign for Capital Improvement Projects," approved in March 2008, outlines the expectations of the Regents for this new process. According to the Regents item, the objectives of the Delegated Process Pilot were as follows:

- 1) Reduce the number of projects directly approved by the Regents
- 2) Speed up the approval for the benefit of the campuses
- 3) Create new reporting tools for use by the Regents

Approval: The first Regents item established a sunset date for the pilot phase of March 31, 2010. This date has been extended by the Regents twice, first until March 31, 2011, and currently to March 31, 2014. At the November 2013 meeting, the Regents are expected to take an action to either make this pilot permanent or to further extend the sunset date. To gain approval to participate in this process, campuses were required to submit 1) the Physical Design Framework (PDF) for their particular campus and 2) the Capital Financial Plan (CFP) which included a listing of all construction projects for a 10-year period forward. By September 2010, all campuses had submitted the required materials and had been approved to participate in the process.

Project Limits: The Delegated Process was instituted for projects under \$60 million. At that time, a Presidential Delegation of Authority (DA) had already allowed Chancellors to approve projects less than \$5 million without further review. On March 1, 2013, the President effected a change in DA 2574 that required projects under \$10 million to be approved by Chancellors without further review. Therefore, projects from \$10 million to \$60 million are now subject to the Delegated Process. Approximately \$1.35 billion in projects have been approved through the Delegated Process since 2009. At the time of this audit, there were 65 projects processed under the Delegated Process.

Delegated Process Stages: The original action by the Regents in March 2008 outlined three stages of the Delegated Process as follows:

- 1) Planning Cycle - which included the production and approval of 11 PDF's and annually updated campus CFP's as outlined above
- 2) Project screening - which included:
 - Office of General Council screening on compliance with the California Environmental Quality Act (CEQA)
 - Financial Feasibility screening by External Finance
 - Regental and University Policy compliance by the EVP of Business Operations
- 3) Reporting and accountability through campus reporting to UCOP, Committee on Grounds and Buildings visits to the campuses and audits validating factual information reported throughout the process

Stages one and two above have been successfully completed. Stage three is awaiting the refinement of accountability metrics and implementation of IT tools to facilitate summary of the project data.

Objectives and Scope

Internal Audit conducted this review at the request of the Capital Resources Management Department (CRM) at UCOP. The overall goal was to determine if the rigor applied by the campus subject matter experts (SMEs) in reviewing projects for recommendation to the Chancellor was sufficient when compared to the rigor applied by UCOP SMEs in reviewing projects for submission to the Regents.

We assessed this rigor through a review of documentation and interviews with campus and UCOP staff. Specifically, we 1) verified that documents listed on Section 3 of the Delegated Process official checklist were available at the campuses; 2) verified that each step in the project approval process as published in the PDF could be validated as performed at the campus. We also solicited feedback from campuses about their evaluation on the effectiveness and timeliness of the submittal reviews in the Delegated Process. Our audit included review of procedures performed up to submittal of the checklist for review at UCOP, and did not include review of the subsequent approval, design and delivery processes, physical inspection of construction projects, review of actual costs vs. budget, or review of project timeliness.

We selected 11 projects from 10 campuses and 1 medical center (Davis Medical Center, which has a stand-alone PDF). Our sample included projects ranging from \$7 to 53 million, and included new buildings, remodel and infrastructure projects.

For each project selected, we obtained and reviewed the documents required to be completed as part of the Delegated Process to validate that the documentation was complete, factual and conformed to University and Regental Policy. We conducted 12 teleconference meetings with campus representatives from capital planning departments and capital projects (design) departments both to understand their approval process and to solicit feedback. We reviewed approval documents from key committees that constituted the subject matter experts at each campus and verified that all documents specified in Section 3 of the approved checklist were available. Section 3 addresses compliance with UC Policy related to:

- 1) Business Case Analysis
- 2) Design and Cost Reviews
- 3) Sustainable Practices
- 4) Seismic Review
- 5) Value Engineering Review
- 6) University Controlled Insurance Program
- 7) Gift Policy
- 8) Student Fee Policy, where applicable

Internal Audit was also asked to solicit general feedback from each campus about its experience using the Delegated Process as to efficiency and expenditure savings.

Telephone meetings with campuses and review of documentation were performed in June and July 2013. Fieldwork was completed at the end of July.

Overall Conclusion

In general, we found the documentation required by Section 3 of the Delegated Process official checklist and the approvals and/or reviews by SME committees at each campus to be thorough and complete, indicating that these elements of the Delegated Process are functioning as intended and in a manner consistent with the Regents' item of March 2008. We verified that the applicable documents were available at the campuses and approval process steps were validated. Notably, all 11 locations indicated that the rigor of review by campus SMEs is the same for Delegated Projects as for standard projects that are referred to the Regents for approval.

Our discussions with the campuses and UCOP revealed that they both want the Delegated Process to become permanent, however the campuses would like to see more responsibility for review delegated to the Chancellors and a more consistent and timely review by UCOP staff. Through these discussions, we also concluded that communication between campus staff and UCOP requires improvement, and that there appears to be two disparate views between the campuses and UCOP in evaluating the effectiveness and the timeliness of the Delegated Process. We have developed a summary of feedback and suggestions received from the campuses on the Delegated Process, which we provided to CRM in a separate memo.