HOUSING & HOSPITALITY SERVICES

ON-CAMPUS HOUSING MAJOR MAINTENANCE RESERVES

AUDIT REPORT #17-2207

Audit & Advisory Services

August 2017

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Background

In accordance with the UCLA Administration fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) performed a review of the On-Campus Housing (OCH) Major Maintenance reserves.

The Major Maintenance reserves is a strategic fund used to maintain OCH’s ability to generate revenue. Major maintenance work includes projects such as renovations or repairs to residence halls, new furniture for dorm rooms, new equipment for the dining halls, and upgrades to information systems. Each year, OCH departments identify major maintenance projects needed for their area and submit requests for funding. The Housing & Hospitality Services (H&HS) Assistant Vice Chancellor is responsible for approving which projects get funded and the amount of funding.

Each project is assigned a unique code, which is used to identify and track all activity related to that project. Each project is also assigned to a project manager, who is responsible for authorizing and tracking all transactions for their projects and ensuring all documents are submitted to the Housing Business Office (HBO) for the Director of Budget & Financial Planning, and the H&HS Assistant Vice Chancellor’s approval. A Microsoft Access database is utilized to track and monitor all financial activity for each major maintenance project. In addition, a HBO Administrative Analyst is responsible for updating the database with approved transactions such as purchase requisitions, job orders, recharges, invoices, and transfers. On-line reports are generated from this database and utilized by project managers to determine the remaining balances and detailed transactions for their projects.

For fiscal year 2016-17, approximately $9.8 million was allocated to 113 major maintenance projects for OCH departments and $123,000 to eight projects for the University Guest House. For fiscal year 2017-18, HBO will also be responsible for Major Maintenance projects for the new Luskin Conference Center and UCLA Catering. There is a separate Major Maintenance plan for University Apartments, which is covered in a separate audit.

Purpose and Scope

The purpose of the review was to ensure that the HBO’s organizational structure and controls, and the related systems and procedures are conducive to accomplishing its business objectives with regard to major maintenance projects. Where applicable, compliance with University policies and procedures and the Major Maintenance Guidelines were also evaluated.

The scope of the audit focused on the following activities:

* Approval and Funding of Major Maintenance Projects
* Project Monitoring
* Purchasing
* Transfer of Funds
* Project Closeout
* General Ledger Reconciliations
* Information Technology

The review was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* and included tests of records, interviews, and other auditing procedures considered necessary to complete the audit.

Summary Opinion

Based on the results of the work performed within the scope of the audit, HBO’s organizational structure and controls, and the related systems and procedures surrounding major maintenance projects are generally adequate and effective to help achieve their business objectives. However, certain business practices could be further strengthened to improve upon the existing internal controls. The following were noted:

*Recharges*

* Management should ensure that estimates are obtained and approved by the Director of Budget and Financial Planning and the H&HS Assistant Vice Chancellor prior to commencement of all recharge work.

*Transfer of Funds*

* Management should ensure that all funding transfers for Major Maintenance projects are approved by the H&HS Assistant Vice Chancellor as stipulated in the Major Maintenance Guidelines.

The audit results and corresponding recommendations are detailed in the following section of the report.

Audit Results and Recommendations

Approval and Funding of Major Maintenance Projects

On an annual basis, OCH departments identify major maintenance projects needed for their area and submit requests for funding. Each request must include a brief description of the proposed project, justification for the project, priority, and the requested funding amount needed supported by a cost estimate. The HBO and Director of Housing Maintenance review each request to determine if there are already existing projects with the same scope, if the funding amount requested is supported by a reasonable cost estimate, and the request is not for operating expenses. The requests are then submitted to the H&HS Assistant Vice Chancellor for final approval and funding.

A&AS discussed the process for approval and funding of major maintenance projects with the HBO and Director of Housing Maintenance and reviewed the list of approved projects for 2016-17 and funding requests documents for 2017-18 projects, noting that there are adequate controls for reviewing and approving major maintenance projects.

Current guidelines require multiple levels of review and approvals for all Major Maintenance transactions, which helps ensure that these funds are used for authorized purposes. However, for some transactions there are a large number of approvals required regardless of the dollar amount. For example, the project manager, Director of Budget & Financial Planning, and H&HS Assistant Vice Chancellor are all required to approve and sign all purchase requisitions, and when purchase orders are processed, review the Post Audit Notifications (PANs), and then all approve and sign the associated invoices, with some people approving the same transaction multiple times. Discussions were held to determine if the approval process could be further streamlined and HBO management indicated that the current process is appropriate and needed.

There were no significant control weaknesses identified in this area.

Project Monitoring

A Microsoft Access database is utilized to track and monitor all financial activity for each major maintenance project including funding, expenses, and transfers. Each project is assigned to a project manager, who is responsible for authorizing and tracking all transactions for their designated projects. A Project Balance Report is utilized by project managers to ensure that sufficient funds are available to cover the expenses for their projects. A Project Detail Report, which lists all the transactions such as purchases, recharges and transfers for a project, is utilized by project managers to track and monitor the finances for each of their projects.  In addition, the H&HS Assistant Vice Chancellor has monthly meetings with each of the H&HS area directors to discuss the status of their Major Maintenance projects.

A&AS discussed the Major Maintenance projects database with the HBO and Director of Housing Maintenance and reviewed examples of the Project Balance Report and Project Detail Report, noting that the database and reports are helpful and utilized to track and monitor projects.

There were no significant control weaknesses identified in this area.

Purchasing

Major Maintenance Guidelines have been established, which includes requirements for certain purchasing methods depending on the dollar amount of the purchase, if there is an existing blanket agreement, or if the service is available from a UCLA campus department on a recharge basis. Purchases greater than $5,000, where there is no existing blanket agreement, requires at least three vendor quotes to help ensure price reasonableness, or if sole sourced, a justification is required for why the goods or services are only available from that vendor. Purchases greater than $50,000, where there is no existing blanket, may be required to be competitively bid at the discretion of the Campus Purchasing department. For on-campus recharge services, cost estimates are required to be provided and approved before the work is started. All purchases and recharges must be approved by the Director of Budget & Financial Planning and the H&HS Assistant Vice Chancellor. To verify that internal controls were adequate for Major Maintenance purchases, a sample of transactions from fiscal year 2016-17 (as of April 12, 2017) was selected for testing. The following were noted:

Purchases > $5,000

A judgmental sample of five purchases greater than $5,000, where there are no existing vendor agreements for Major Maintenance projects were reviewed, noting the purchases were processed and approved in accordance with established Major Maintenance Guidelines. Three vendor quotes were obtained and the vendor with the lowest quote was selected. For sole sourced purchases, a Sole Source Form was completed and approved. The purchase requisitions and invoices were approved by the project manager, Director of Budget & Financial Planning, and the H&HS Assistant Vice Chancellor.

Purchases - Campus Agreements

A judgmental sample of five purchases utilizing campus agreements for Major Maintenance projects were reviewed, noting the purchases were reviewed and approved by the project manager, Director of Budget and Financial Planning, and H&HS Assistant Vice Chancellor, which were in accordance with the Major Maintenance Guidelines.

Job Orders

A judgmental sample of three job orders and three corresponding applications for payments from the top three vendors with the highest dollar amount of job orders for Major Maintenance projects were reviewed, noting the job orders and applications for payments were reviewed and approved by the project manager, H&HS Director of Budget and Financial Planning, and the H&HS Assistant Vice Chancellor, which was in accordance with Major Maintenance Guidelines.

Low Value Orders (LVOs)

LVOs are only to be used for purchases that do not exceed a cost of $5,000 per vendor, per day, excluding shipping and taxes, and are not purposely split to circumvent purchasing policies. A list of LVOs for Major Maintenance projects was analyzed, noting no LVOs exceeded the $5,000 threshold and were not purposely split to circumvent purchasing policies.

Change Orders

Change orders are used to document any changes to the original agreement. There was not a significant amount of change orders processed for Major Maintenance projects, only ten that increased the total contract amounts ranging from $279 up to $25,900.  A judgmental sample of three of the highest dollar amount change orders were reviewed, noting the change orders were approved by the project manager, H&HS Director of Budget & Financial Planning, and the H&HS Assistant Vice Chancellor. Change orders did not appear to be used to circumvent more stringent purchasing requirements (e.g. competitive bidding).

Recharges

The most common campus departments recharged for Major Maintenance projects include Fleet Services, Facilities Management, Information Technology Services, and Capital Programs.

A judgmental sample of five recharges for Major Maintenance projects were reviewed to verify that estimates were obtained and approved, and the amounts recharged were appropriate. The following was noted:

* Approval of Estimates

For four of the five recharges reviewed, estimates were obtained and approved by the project manager, Director of Budget & Financial Planning, and the H&HS Assistant Vice Chancellor. There was one recharge where a formal, detailed estimate was not obtained from IT Services for the proposed cabling work, rather a summary estimate was emailed to the project manager. There was no documentation to support that the estimate was approved by the project manager, Director of Budget & Financial Planning, and the H&HS Assistant Vice Chancellor prior to the start of the work. After the project started, service orders detailing the labor and material charges incurred were approved by the project manager, Director of Budget & Financial Planning, and the H&HS Assistant Vice Chancellor. When recharges are billed, PANs are sent to the Director Budget & Financial Planning, the H&HS Assistant Vice Chancellor, and the Executive Director Financial and Administrative Services.

Recommendation: Management should ensure that estimates are obtained and approved by the Director of Budget and Financial Planning and the H&HS Assistant Vice Chancellor prior to the start of all recharge work.

Response: Concur. The Housing Business Office (HBO) will continue to require estimates and approval from the Director of Budget and Financial Planning and the H&HS Assistant Vice Chancellor for all recharges prior to the start of any work. If a situation arises in which estimates and approval are not obtained prior to the start of the work, the project manager will need to provide a justification for the exemption.

Transfer of Funds

Per the Major Maintenance Guidelines, “Project Managers may ask for funding to be transferred between non-contingency projects. The ability to transfer funding between projects is not to be used as a substitute for proper budgeting and pre-planning. Funding transfers are to be approved by the Director of Budget & Financial Planning and the H&HS Assistant Vice Chancellor.”

Transfer of Funds - Approval

A&AS reviewed a judgmental sample of 22 funding transfers from projects closed and transfers processed between July 1, 2016, and April 12, 2017, noting that all transfers were requested via email and included justifications for the transfers. All 22 transfers reviewed were approved by the Director of Budget & Financial Planning; however, there was no evidence of explicit approval by the H&HS Assistant Vice Chancellor for a majority of the transfers (16 of 22), including nine where the H&HS Assistant Vice Chancellor was also not copied on the transfer requests.

Recommendation: Management should ensure that all funding transfers for Major Maintenance projects are approved by the H&HS Assistant Vice Chancellor as stipulated in the Major Maintenance Guidelines.

Response: Concur. Going forward, the H&HS Assistant Vice Chancellor will be asked to approve fund transfers. The Director of Budget and Financial Planning and the H&HS Assistant Vice Chancellor have met to discuss funding transfer approvals. The H&HS Assistant Vice Chancellor has agreed to a set of scenarios for which he approves funding transfers.

Project Closeout

Controls surrounding the Major Maintenance project closeout processes, including timeliness, were reviewed to verify compliance with established guidelines and best business practices. The following were noted:

1. Project Closeout Timeliness

The following processes are in place to help ensure Major Maintenance projects are completed and closed out in a timely manner:

* The H&HS Assistant Vice Chancellor has monthly meetings with each of the H&HS area directors to discuss the status of their Major Maintenance projects.
* At the beginning of each fiscal year, a listing of all open projects are sent to each project manager for them to provide updates on the completion date or projects that can be closed out.
* At the middle of each fiscal year, a listing of projects with no transactions for the last two years is sent to each project manager to determine if the available funds are still needed or if the project can be closed and remaining funds returned to the contingency fund.

Funding for Major Maintenance projects is approved and allocated each year. HBO indicated that many projects can span several years, especially projects involving occupied residence halls, and there is a very small window of time when work can be done with minimal disruption to residents and guests.

A&AS obtained a list of open Major Maintenance projects as of April 2017, noting the following:

|  |  |  |
| --- | --- | --- |
| PROJECTS OPEN | # OF PROJECTS | REMAINING BALANCE |
|  > 1 YEAR | 64 | $ 4,286,070 |
|  > 2 YEARS | 27 | $ 861,741 |
|  > 3 YEARS | 18 | $ 907,397 |
|  > 4 YEARS | 11 | $ 403,567 |
|  > 5 YEARS | 9 | $ 149,271 |
| **Grand Total** | **129** | **$ 6,608,045** |

A&AS selected a judgmental sample of five projects that have been open for the longest period of time and have a large remaining fund balance to determine if there is a valid reason why the project has been open for an extended period of time or if the project should be closed and the remaining funds returned to the contingency fund.

* One project was funded four years ago and has a balance of $155,000.  The project manager indicated that $85,000 of the funds are still needed for projects for 2017-18; however, $70,000 can be transferred back to the contingency fund, which has been done by the HBO.
* One project was funded six years ago; however, it has not been started and none of the funds have been used.  The project manager indicated the project is scheduled for 2017-18.
* One project was funded over four years ago and has had a balance of over $194,000 that has not been used for almost three years.  The project manager indicated the remaining funds are still needed and will be used in the upcoming year.
* Two other projects were still active per the project manager.

There were no significant control weaknesses identified in this area.

1. Closeout Process

Before a Major Maintenance project can be closed, the assigned project manager must verify that all the financial activity recorded to the project is accurate and appropriate for the scope of the project.

A judgmental sample of three Major Maintenance projects that were closed between July 1, 2016, and April 10, 2017, were reviewed noting that project managers verified the accuracy and appropriateness of transactions recorded to their projects by reviewing and signing the Project Detail and Project Balance reports. Remaining balances were transferred by HBO staff to the contingency account.

There were no significant control weaknesses identified in this area.

General Ledger Reconciliations

General ledger reconciliation practices were evaluated to verify that proper controls exist over the recording of major maintenance transactions and to ensure compliance with University policies and procedures. A judgmental sample of three months, which included July, August, and September 2016 were reviewed, noting that reconciliations between the Major Maintenance projects database and general ledger were performed by HBO staff and reviewed by the Director of Budget and Financial Planning. In addition, the Major Maintenance transactions were properly recorded on the general ledger and agreed with the Major Maintenance projects database.

There were no significant control weaknesses identified in this area.

Information Technology

A Microsoft Access database is utilized to track and monitor all financial activity for each Major Maintenance project including funding, expenses, and transfers. Key web-based reports are generated based on information recorded in the database and utilized by projects managers to monitor all the transactions and balances for each of their Major Maintenance projects. A limited-scope review was performed to determine if access to the database is restricted to authorized employees and the database is regularly backed up. The H&HS Information Technology (IT) department is responsible for granting access to database and performing backups.

1. User Access

A System Access Request form must be completed and approved by the Director of Budget and Financial Planning and the Business Analytics Manager and submitted to the IT department in order to be setup with access to the Major Maintenance projects database. A unique user ID and password is required to access the database. Access to update the Major Maintenance project database is restricted to two administrative analysts in the HBO, who are responsible for setting up projects, assigning funding, recording purchases, recharges, fund transfers, and closing projects. Project managers only have access to the on-line project reports.

There were no significant control weaknesses found in this area.

1. Back-Up & Recovery

Based on discussions with H&HS IT management, the Major Maintenance Projects database is regularly backed up on a daily basis. At the time of the audit, copies of the backups were not maintained off-site; however, there are plans to back up the database to a cloud-based service before the end of fiscal year 2016-17.

There were no significant control weaknesses found in this area.

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