CAPITAL PROGRAMS

FUND MANAGEMENT

AUDIT REPORT #19-2103

Audit & Advisory Services

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Background

In accordance with the Campus fiscal year 2018-19 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and business practices over key fund management functions within the UCLA Capital Programs department.

*Capital Programs Overview*

The Capital Programs department is responsible for conceptualizing, planning, designing, and constructing major capital construction and renovation projects at UCLA. Projects having total costs of $1 million and above are considered major capital construction. Capital Programs develops financial strategies, obtains project approvals, reviews plans and specifications, completes environmental reviews, prepares and negotiates construction contracts, coordinates staging plans, and serves as a repository for project records and as-built plans.

The department’s mission is to create projects that “support the instruction and research mission of the University by providing a physical campus environment that fosters excellence, creativity, and a sense of community.” Capital projects are developed to take into account UCLA land use priorities, established physical designs, University policies and procedures, environmental and regulatory requirements, and community interests.

The Capital Programs department consists of the following two areas:

*Capital Planning and Finance* – responsible for planning, environmental assessment, project budgeting, and project financial services including contracts administration. This area is led by an Associate Vice Chancellor who reports to the Vice Chancellor and Chief Financial Officer.

*Design and Construction* – responsible for project design, engineering, permitting and inspection services, project management, and construction management activities. This area is led by an Associate Vice Chancellor who reports to the Vice Chancellor and Chief Financial Officer.

Capital Programs Financial Services unit consists of two employees and an Accounting Manager. The Accounting Manager reports to the Associate Vice Chancellor of Capital Planning and Finance.

Purpose and Scope

The primary purpose of the review was to ensure that Capital Programs organizational structure and controls surrounding its fund management processes are conducive to accomplishing its business objectives. The secondary purpose of the review was to evaluate the adequacy and efficiency of internal controls. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following areas:

* Funding Source Restrictions
* Project Accounting and Financial Controls
* Operating Budget and Administration
* Project Cost Overruns
* Reconciliations
* Accountability Structure

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary to achieve the objective.

Summary Opinion

Based on the results of the work performed within the scope of the audit, Capital Programs Accounting unit’s organizational structure and controls are generally conducive to accomplishing its business objectives related to fund management processes. However, controls and business practices could be further strengthened by implementing the following:

*Accountability Structure*

* Management should monitor accountability delegations by reviewing quarterly Distributed Administrative Computing Security System (DACSS) reports to ensure that the structure reflects access that is appropriate and consistent with the department’s organizational structure and job responsibilities.

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

Audit Results and Recommendations

Funding Source Restrictions

Vetting of funds is performed during the project planning phase to, in part, identify any special requirements or restrictions that may be placed by the funding source. For the majority of project-related funds, the only restriction is that the resources support the scope of the approved project. However, if a particular fund has more narrow restrictions, the conditions are identified either at project approval or when the fund transfer occurs. The project approval sets the parameters as to what types of expenses should be allowed in a particular project. The Capital Programs department also relies heavily on the Project Manager to determine what is in the scope of a given project. If the fund restrictions are complex, the Capital Programs Financial Services unit meets with the Project Manager to ensure that the terms and conditions of the funds will be adhered to.

A&AS leveraged data analytics to determine whether funds allocated to capital projects had any incompatible restrictions and whether actual expenditures aligned with the stated purpose of the funds.

Four projects financed by gifts or state funding sources were sampled from 100 plant accounts that closed in fiscal year 2017-18. A Campus Data Warehouse (CDW) query was generated to identify funds with restriction flags, and to summarize project costs by fund groups and financial classes. Of the four projects, eight plant fund numbers were selected for review. Project expense restrictions and allocation methodologies were discussed with the Accounting Manager and the Director of Project Management Services. UCLA Business Systems were referenced to obtain fund purposes and restrictions of the sampled projects. The narrative of the fund purposes and restrictions were then compared with the summarized financial data.

Based on the sample testing performed, all eight funds reviewed appeared to be used for their intended purposes. No specific restrictions had been placed on the funds, other than that they were to be used for the scope of the intended project. For one selection, A&AS verified that the state funds were properly allocated into the project phases as specified in the Regents approved budget.

There were no significant control weaknesses noted in this area.

Project Accounting and Financial Controls

Interviews were conducted with Capital Programs management to obtain an understanding of departmental processes, procedures, and controls over project accounting and financial controls.

Financial Reporting

The Accounting Manager oversees financial internal controls and reporting for all major capital projects. One of the duties of the manager is to direct and coordinate the preparation of financial reports to all relevant funding agencies. Funding sources and agencies include grant funds, Federal Emergency Management Agency, State, donors, campus funds, and external financing.

A&AS conducted a review to verify whether financial reports were prepared, appeared adequate to meet any specific requirements, and for those projects having reporting requirements, that the reports were filed timely. Based on five plant accounts selected from 100 projects that closed in fiscal year 2017-18, it was determined that periodic financial reporting was not required by the funding source; however, internal campus reports were prepared and meetings with management were held for some of the projects to review expenses and ensure costs were properly allocated.

There were no significant control weaknesses noted in this area.

Funding Transfers

Transfers of funds to projects are coordinated by staff members to assure timely funding availability for design and engineering agreements, contract awards, and other time-sensitive work affecting project schedules.

A&AS reviewed the Capital Programs Transfer of Funds (TOF) procedures to determine their adequacy. In addition, a CDW query was generated to obtain the TOF transactions from inception to June 30, 2018, for the sample of five projects selected earlier. A sample of eight TOF transactions was then selected and supporting documents for each transaction were obtained. A review of the documentation was performed to verify that each transaction was explained, authorized, and that a report reflecting the plant account appropriations had been generated. Based on the work performed, A&AS verified that the funding transfers were fully documented and the transactions were consistent with University policy.

There were no significant control weaknesses noted in this area.

Chancellor Commitments

Chancellor Commitments were reviewed to determine the adequacy of how commitments are monitored. Based on discussions with management; review of Capital Programs tracking report for projects that were awarded during fiscal year 2018-19; and an Academic Planning & Budget (APB) Chancellor Capital Commitments report, it appears that Chancellor Commitments were adequately monitored by the department. Assigned Chancellor Commitments are tracked by the Capital Programs Financial Services unit as they are transferred, and comparisons are made to reports provided by the APB department for accuracy.

There were no significant control weaknesses noted in this area.

Cash Flows of Retirement of Indebtedness and Student Fee Accounts

A&AS met with management to determine the adequacy of how the department manages the cash flows of the Retirement of Indebtedness and student fee accounts.

Capital Programs functions as a monitor of the Retirement of Indebtedness and student fees to ensure that the appropriate debt is taken from those accounts and that the amounts appear to be accurate to the debt schedule published by the University of California Office of the President (UCOP). Capital Programs Accounting and Finance unit staff also review the account to ensure there are balances in the account and that there are no large fluctuations that would jeopardize the debt payments the following year.

The Retirement of Indebtedness account is where the debt for some of Capital Programs' assigned Chancellor Commitments is applied. Capital Programs determines whether debt payments appear to be accurate and then request funding for that debt through the Chancellor Commitments. In some instances, there are debts that need to be paid by the department. In those cases, the Accounting Manager contacts these departments and informs them of the debt that has been applied to their account. The department must provide the Full Accounting Unit (FAU) to pay the debt. Once the departments’ representative gives the Accounting Manager an FAU, it is forwarded to UCLA Corporate Accounting for processing.

There were no significant control weaknesses noted in this area.

Monitoring of Balance Accounts and Short-Term Investment Pool (STIP)

To determine the adequacy of how the department monitors the balance accounts that are linked to plant accounts for the purpose of STIP earned, A&AS selected a sample of 15 plant accounts and requested information and documentation from management. A&AS also reviewed the balance accounts with management to determine whether they have remained in balance and that STIP was appropriately applied to relevant plant accounts or returned to the client.

Capital Programs typically only closely monitors the STIP income for a project where the client has specifically indicated that they will be using interest income to offset future interest expense to keep the project cost down. If Capital Programs notices that there is a STIP balance in a fund number that they are using, they may ask the department if they wish to appropriate those funds to the plant account as funding. However, the income earned on these funds is owned by the department and they have jurisdiction over its use.

According to management, the 15 accounts selected for testing are in balance and only three of those accounts tested involved STIP. One project had a small balance (approximately $1,000) of STIP that Capital Programs will apply to the relevant plant account or return to the client, but the delay is due to other departmental priorities and the need to work with Corporate Accounting to handle this process. All other STIP transactions appeared to be appropriately applied to relevant plant accounts or returned to the client.

There were no significant control weaknesses noted in this area.

Internal Financing Agreements

From a list of projects from fiscal year 2017-18, A&AS identified projects with internal financing and selected all five projects for review. For the five projects selected, A&AS reviewed documentation to determine whether formal agreements were executed between the client department and APB regarding full repayment of the related debt.

For the five projects selected, the Accounting Manager provided formal agreements between the client department and APB or Internal Bank Center (IBC) regarding full repayment of the related debt, including interest. Agreements also included terms and/or payment schedules.

There were no significant control weaknesses noted in this area.

Debt Management

A&AS reviewed the UCOP debt file and debt model with management to determine the adequacy of documentation and review and/or approval of the reconciliation.

The most recent reconciliation to UCLA debt was performed by the Accounting Manager in September of 2018. UCOP sends Capital Programs the debt detail for all of their projects. The Accounting Manager then compares the amounts in the file provided by UCOP to the department’s debt model. The debt model is what Capital Programs submits to UCOP whenever they are seeking financing approval for new construction projects, this information is emailed to UCOP multiple times per year. The debt model shows UCLA has the capacity to add new debt that is being requested. Review of the UCOP file and debt model, with the Accounting Manager showed that selected amounts on the UCOP file agreed with the amounts on the debt model.

It was noted that the Accounting Manager is currently the only person who performs this debt reconciliation, but management plans to have more staff involved in the process, in order to help keep the debt model updated. Also, the Accounting Manager’s reconciliation is not reviewed by anyone at UCLA. However, UCOP reviews the debt model and are aware of projects that Capital Programs is seeking financing approval for. In addition, management indicated that they intend to involve other staff in the debt reconciliation process.

There were no significant control weaknesses noted in this area.

Operating Budget and Administration

Interviews were conducted with Capital Programs personnel to determine how the department's clearing account is used, and whether controls appear adequate to ensure that it is used appropriately. Departmental processes, procedures, and controls over operating budget and administration were discussed and the fiscal year 2017-18 clearing account General Ledger was reviewed.

The clearing account is used by departments that need to recharge Capital Programs, because the plant accounts are not set up to handle certain types of transactions (recharges, parking/transportation, etc.). When a department cannot charge the plant account directly, Capital Programs provides the department the clearing account number of 661500-66105 for that purpose. Capital Programs requests that the charging department input the project number or name into the Project Field category, to help easily identify the proper location for the charge. If there is no identifying information on the transaction, Capital Programs will contact the department that made the charge to obtain authorization and description information. The clearing account transactions are reviewed on a periodic basis, then the expenses are moved to the appropriate account. The clearing account is reviewed at fiscal year-end and Capital Programs makes sure it has a zero balance for fiscal year close.

There were no significant control weaknesses noted in this area.

Project Cost Overruns

The Negative Balance Report for fiscal year 2017-18, was reviewed to verify the volume of project cost overruns. A&AS selected closed accounts with negative balances for testing. For the sample selected, A&AS requested explanation and documentation for the negative balances.

Review of the Negative Balances report indicated that there were 18 projects with cost overruns as of June 30, 2018. Of the 18 projects, six of the projects were closed and 12 were ongoing.

It was also noted that two of the six closed projects did not have documentation/evidence of review; however, these project transactions occurred prior to the current Accounting Manager’s tenure at Capital Programs, and negative balances are now being reviewed.

There were no significant control weaknesses noted in this area.

Reconciliations

A&AS met with Capital Programs management to review the reconciliation process and determine whether departmental processes and procedures have been established to ensure adequate reconciliations are performed.

Reconciliations are performed daily, usually before 8:00 a.m., by the Accounting Manager. If the Accounting Manager is out of the office, an Administrative Analyst performs the reconciliation. Early reconciliation is performed to update the CapSTAR system before reports are generated and checks are issued. Invoices are reviewed to match General Ledger transactions. Information reviewed includes invoice number, amount, and Project Manager approval (evidenced by their initials).

UCLA Accounts Payable processes transactions, then transactions are posted to the General Ledger. The following morning, data is downloaded into CapSTAR and reconciliations are performed. Capital Programs staff reconcile invoices to the General Ledger information and memos in CapSTAR. Related expense line(s) are selected in CapSTAR and then the “Transfer” is initiated. Contract purchase order numbers are also reviewed for accuracy the day after a memo is created. For contract invoices, the related memo line(s) are selected and the “Reconcile” is performed. Use of the “Transfer” and “Reconcile” option keys, will clear the selected entries from the reconcile screens. If the amounts do not agree, an error message is received.

Departmental processes and procedures have been established to ensure adequate reconciliation is performed.

There were no significant control weaknesses noted in this area.

Accountability Structure

DACSS reports were reviewed to determine whether there is an effective structure for the delegation of initiating, processing, and reviewing transfer of funds (TOF) and Non-Payroll Expenditure Adjustment (NPEAR) transactions, and that the structure is current and in compliance with the UCLA Financial Policy. Post-Authorization Notifications (PANs) were reviewed to verify whether TOF and NPEAR transactions were read by mandatory reviewers “within two business days of receipt,” in accordance with the UCLA Financial Policy.

DACSS

1. DACSS Reviewer Audit Trail

A&AS obtained the DACSS Reviewer Audit Trail from the CDW DACSS reports - "DACSS Function Audit Trail," and selected the criteria: "Dept Code 2700" and "Process ID: TOF and FSN." This listing was filtered to the last year a current employee was added or deleted and reviewed for suspicious activity (for example, reviewers being deleted and added back within a short period of time).

Our review determined that reviewers’ access being added, changed, or deleted appeared to be normal Departmental Security Administrator activity.

There were no significant control weaknesses noted in this area.

1. Users with Access Test

A&AS also obtained the DACSS "User and Access by Appt Unit" from the CDW DACSS reports, with the following criteria: "Dept Code 2700." Data was sorted by function code to identify users under each function. Employees with Budgetary Transfer of Funds Function code "FSTFA" and/or NPEAR Application code "FSNPEAR" were identified. The list of users was provided to the Accounting Manager to review the existing access for appropriateness. DACSS web user information, UCPath employment status, and DACSS Audit Trail was also reviewed.

Although internal controls appeared sound overall, it was noted that one user did not have appropriate FSTFA access to perform transfer of funds transactions for the Capital Programs department. This appeared to be an oversight by management. After advising department personnel, this user’s access has since been removed.

Recommendation: Management should monitor accountability delegations by reviewing quarterly DACSS reports to ensure that the structure reflects access that is appropriate and consistent with the department’s organizational structure and job responsibilities. All inappropriate DACSS access identified during the review should be removed promptly.

Response: Capital Programs agrees with this recommendation and will monitor DACSS delegations quarterly.

1. Reviewer’s Test

A CDW DACSS report was obtained - "Reviewers by Home Department," with the following criteria: "Dept Code 2700," "Mandatory Reviewers," "Process ID: TOF and FSN." A&AS discussed mandatory reviewer access with the Accounting Manager to assess whether the current set up was appropriate.   Based on our review of the CDW report and discussion with departmental personnel, we determined that all current TOF and NPEAR mandatory reviewers appear appropriate.

There were no significant control weaknesses noted in this area.

Post-Authorization Notifications (PANs)

A&AS obtained a listing of Capital Programs mandatory reviewers from the CDW DACSS reports - "Reviewers by Home Department," with the following criteria: "Dept Code 2700,"  "Mandatory Reviewers," "Process ID: TOF and FSN." A&AS reviewed the Mandatory Reviewer Audit Log in the PAN system for all Capital Programs employees identified as a mandatory reviewer for the five month period of July 15, 2018, to December 15, 2018. A&AS verified whether mandatory reviewers had read their PANs for TOF and NPEAR transactions "within two business days of receipt," in accordance with the UCLA Financial Policy.

A&AS identified one TOF mandatory reviewer and two NPEAR mandatory reviewers who did not read their PANs "within two business days of receipt," as required. There were three unread PANs that remained in the TOF mandatory reviewer’s queue for greater than five days. The number of days these unread PANs remained in the reviewer’s queue varied from six to 13 days. For NPEARs, the number of unread PANs that remained in each mandatory reviewer’s queue greater than five days was five and seven, respectively. These unread PANs ranged from five to 10 days. Since Capital Programs management has been made aware of this issue and accepts the risk using their existing protocol, a recommendation for this issue will not be made at this time.

There were no significant control weaknesses noted in this area.

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