HOUSING & HOSPITALITY SERVICES

UNIVERSITY APARTMENTS – REVENUE, LEASING, AND VACANCY

AUDIT REPORT #17-2205

Audit & Advisory Services

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Background

In accordance with the UCLA Administration fiscal year 2016-17 audit plan, Audit & Advisory Services (A&AS) conducted a review of University Apartments (UA) revenue, leasing, and vacancy business practices.

UA offers housing designed to meet the needs of undergraduate and graduate families, married students, single parent students, same-sex domestic partners, graduate students, faculty, and staff. UA has approximately 3,500 off-campus apartments with a capacity for over 5,250 occupants. UA is organized into the following UA North and UA South areas:

* UA North consists of 16th Street Apartments in Santa Monica, Faculty Levering Apartments, Faculty Weyburn Apartments, Faculty Wilkins Apartments, Gayley Court Apartments, Gayley Towers Apartments, Glenrock Apartments, Glenrock West Apartments, Hilgard Apartments, Kinnard House, Kneller House, Landfair Apartments, Landfair Vista Apartments, Margan Apartments, Park Wilshire Condominiums, Village Terrace Condominiums, Westwood Chateau Apartments, Westwood Palm Apartments, Weyburn Terrace Apartments, and Weyburn Terrace Common.
* UA South consists of Clarington Apartments, Keystone/Mentone Apartments, Rose Avenue Apartments, University Village Apartments, and Venice/Barry Apartments.

For fiscal year 2015-16, gross revenue totaled over $46 million, net operating revenue $28 million, and contribution to accumulated earnings of $2.4 million (after debt service of $18.2 million, and contribution to reserves of $7.3 million).

Initial eligibility verifications and space assignments for faculty and staff are performed by UA, while Housing Services (HS) performs this for residents such as undergraduate students, graduate students, interns, post docs, and visiting graduate researchers (VGRs). After move-in, UA is responsible for performing continued eligibility verifications for all residents. Rental agreements for faculty and staff are handled by UA, and all other residents are handled by HS. HS is responsible for the billing and collection of rent.

UA has approximately 100 full-time employees, 51 part-time student employees, and is managed by a Director, who reports to the Assistant Vice Chancellor of Housing & Hospitality Services (H&HS).

Purpose and Scope

The purpose of the review was to ensure that UA’s organizational structure and controls, and the related systems and procedures surrounding revenue, leasing, and vacancy activities are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following activities:

* Imputed Income
* Eligibility
* Rental Agreements
* Rental Rates, Payments, and Collections
* Vacancy Reports
* Information Systems

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, UA’s organizational structure and controls, and the related systems and procedures surrounding revenue, leasing, and vacancy activities 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:

* During the past two years, imputed income was not reported for a faculty member living in the Kinnard House. Management should ensure that imputed income is properly reported for the faculty and staff buildings identified as subject to this reporting requirement.
* Management should continue with their efforts to enhance the faculty eligibility verification process.

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

Audit Results and Recommendations

Imputed Income

The amount of rent charged to employees for University provided lodging may result in imputed (taxable) income that needs to be reported. The amount of rent charged is considered adequate, and no imputed income is reported, if the rent is at least equal to the lesser of: 5% of the appraised value of the lodging, or the average of rentals paid by individuals (other than employees and students) for comparable lodging held for rent by the educational institution [Source: IRS Publication 525].

An independent appraisal and review of UA faculty and staff buildings to determine if any apartments are subject to imputed income was last performed in 2013.  Two UA buildings were identified as subject to imputed income based on that review, the Kneller House and the Kinnard House. Audit review indicated that imputed income has been properly recorded for the current resident of the Kneller House. However, for the Kinnard House, while imputed income was properly reported for April 2014 through March 2015; it was not reported for April 2015 through April 2017.

The total imputed income for the period that was not reported was $41,182.  During the audit, this issue was identified and discussed with the Payroll Tax Manager, who has since indicated that revised W-2s have been issued to report the imputed income for 2015 and 2016, and corrections have been made to include the imputed income for 2017.

Recommendation: UA management should ensure that imputed income is reported for the faculty and staff buildings identified as subject to this reporting requirement.

Response: Management concurs. UA Senior Budget Analyst has comprised a Safe Harbor analysis spreadsheet for all the faculty buildings. This analysis will be completed annually by the end of February. The Faculty Coordinator will forward all applicable Safe Harbor reports to UCLA Tax Services no later than mid-March each year so that any imputed income can be processed in a timely manner.

Eligibility

Eligibility criteria to qualify for UA housing are clearly defined and documented. Residents must be a full time graduate or undergraduate student, medical or dental resident, intern or postdoctoral appointee, or VGR. Faculty who are a member of the Academic Senate and highly recruited staff are also eligible for UA housing. Procedures for eligibility verification have been defined and documented.

Initial eligibility verifications for faculty and staff are performed by UA, and all other residents such as undergraduate students, graduate students, medical and dental residents, interns, post docs, and VGRs are performed by HS. After move-in, UA is responsible for performing continued eligibility verifications for all residents.

A judgmental sample of 25 UA residents from December 2016 that included faculty, staff, students, medical and dental residents, interns, post docs and VGRs were reviewed, noting that their initial and continued eligibility were properly verified.

The continued eligibility verification process for students has been streamlined during the past year. Previously, the process was very manual and time intensive, requiring UA staff to lookup over 4,700 student records quarterly to verify if they were enrolled full-time. HS helped create a report that systematically performs this search and identifies only the students that are not enrolled full-time for further review.  UA management indicated that the new report has helped make the eligibility verification process much more efficient.

Faculty Verification

The eligibility verification process for faculty who reside in UA could be enhanced. The process encompasses sending a memo to each individual faculty resident (approximately 148) requesting an updated appointment letter, signed by their department dean or chair. UA staff indicated that this process may take two to three months if the residents do not respond and follow-up is required. Also, the faculty member is relied upon to provide verification. As a result, obtaining the appointment letter from the resident is not as independent and reliable as obtaining the information directly from the department or Personnel and Payroll system.

Recommendation: During the audit, this issue was identified and discussed with UA management, who has since enhanced their processes by verifying faculty eligibility directly with the faculty member's department. To help further improve the efficiency of this eligibility process, the assigned staff could look up the faculty’s appointment in the Personnel and Payroll system, which would save the additional time of having to contact each of the faculty members' departments and waiting for their responses.  A&AS understands that access to personnel and payroll information is sensitive and confidential; however, UA management should consider the time saving benefits of having access to this information through the Personnel and Payroll system.

Response: Management concurs and contacted the Director of Human Resources & Payroll Administration Center North (HRPC-N) to determine if UA could be provided limited access to the Personnel and Payroll system to look up faculty appointments. The preliminary response from HRPC-N was that it appeared problematic due to confidentiality concerns. The Director of HRPC-N will do further research to see if there is another method to verify faculty eligibility in an efficient and confidential manner. We will provide an update on any alternative suggestions by Fall Quarter 2017.

Rental Agreements

Rental agreements are required to be completed and signed by UA management and all UA residents. UA is responsible for reviewing the rental agreement with faculty, staff, and residents and obtaining their signatures prior to their move-in. HS is responsible for ensuring rental agreements are in place and signed for all other UA residents. Verification that rental agreements were completed and signed by UA management and residents was performed for a judgmental sample of 25 residents residing in UA as of December 2016 (that included faculty, staff, students, post docs, residents, fellows, and VGRs). Test work indicated all agreements were properly signed.

There were no significant control weaknesses identified in this area.

Rental Rates, Payments, and Collections

UA rental rates are reviewed annually, and rates for each upcoming year must be approved by the UA Director and Assistant Vice Chancellor of H&HS. Once approved, the rates are loaded into the StarRez system by the HS Database team. UA then reviews the new rental rates to confirm they were loaded into StarRez correctly.

Two key monthly reports are utilized by UA management to help ensure correct rental rates are charged to residents. The *UA Rent by Booking Audit* report identifies variances between the approved rental rates and rates actually charged to residents on a monthly basis. The *UA Room Rate to Occupancy* report helps ensure that the rental rates charged match the correct rates based on the occupancy for the apartment. A&AS reviewed examples of these reports with the UA Area Managers, who indicated that they review these reports and find them to be very helpful.

A&AS selected a judgmental sample of 25 UA residents from July 2016 to March 2017 to verify the correct rent was charged and paid. Test work indicated 24 residents were charged and paid the appropriate amount of rent. There was one resident that was charged an incorrect monthly rate of $2,310, instead of the approved rate of $2,402. The total rent undercharged (since the resident moved in on August 18, 2016, through April 1, 2017) was $593. HS has since corrected the rental rate for future months and the undercharged rent has been billed.

The HS Accounts Receivable unit is responsible for regularly monitoring that UA tenants are paying their monthly rent on time. This responsibility, along with detailed procedures are documented. As part of the judgmental sample of 25 UA residents above, A&AS verified that monthly rent has been paid, and residents do not have an outstanding account balance. In addition, A&AS reviewed the *Account Receivables Aging* report as of March 9, 2017, noting the report is reviewed on a regular basis by HS. Further, A&AS reviewed the operating statement for UA for fiscal year ending 2015-16, noting that there was only a small amount of bad debt of approximately $20,000 (.04%), relative to the total revenue of $46 million for UA.

There were no significant control weaknesses identified in this area.

Vacancy Reports

Policies and procedures related to tracking and monitoring vacancies were requested and reviewed to determine that they are documented.  Detailed procedures have been documented, which define the responsibility for Resident Coordinators to track vacancies and the information required to be reported, such as the dates apartments are vacant and reasons for the vacancies.

A&AS reviewed examples of the detailed monthly UA vacancy reports for fiscal year 2015-16, noting that reports provide information to UA management about the amount of revenue loss due to vacancies and reasons for vacancies. In addition, A&AS reviewed an example of a budget versus actual variance report for July 2016 to December 2016, noting that vacancies are monitored against budgeted amounts on a monthly basis.

There were no significant control weaknesses identified in this area.

Information Systems

A system called StarRez is utilized to manage the leasing, billing, and collection of rent for UA. General security administration practices for UA access to the StarRez system were reviewed to determine if there is a formal process for approving access, assigning access based upon job responsibilities, and removing access when employees separate. Also, A&AS reviewed the StarRez UA user listing with the HS Associate Director to determine if access has been granted and restricted based upon job responsibilities.

In order to obtain access to the StarRez system, UA must submit a System Access Request to the Housing Information Technology (IT) department. Audit review indicated that security groups have been established specifically for UA, each with assigned permissions based upon job responsibilities. Users are assigned to one of the following security groups based upon their job responsibilities: student worker, Assistant Resident Coordinator, Resident Coordinator, UA management.  Since UA still offers faculty housing, they need and have access to create bookings and select the room rate that will be charged to new faculty residents, which has been set for each of the buildings, room types, and occupancy dates.  UA users do not have access to change the rent amounts that have been setup.  Additionally, UA users do not have access to write-off account balances from UA residents' accounts.  HS Accounts Receivable is responsible for any write-offs.

The Human Resources/Payroll office sends a file daily to Housing IT and HS Database, showing those employees who have separated from the University. Housing IT will then deactivate the employee’s network access, which will immediately deactivate StarRez access.

There were no significant control weaknesses identified in this area.

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