

UCLA AUDIT & ADVISORY SERVICES



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April 6, 2015

SENIOR VICE PRESIDENT/CHIEF COMPLIANCE AND AUDIT OFFICER SHERYL VACCA
EXECUTIVE VICE CHANCELLOR & PROVOST SCOTT WAUGH:

Re: Capital Programs – Fund Management Audit Report #15-2101

Enclosed is the audit report covering our review of internal controls and associated procedures established to govern key fund management functions within the UCLA Capital Programs (CP) department.

The primary purpose of the audit was to evaluate internal controls and associated procedures that govern the fund management function. Where applicable, compliance with campus and University requirements was also evaluated. The scope of the audit included:

- Fund Source Restrictions
- Project Cost Overruns
- General Ledger Project Detail
- Information Systems

Based on the results of the work performed within the scope of the audit, CP's organizational structure and controls are generally conducive to accomplishing its business objectives related to fund management activities. No significant control deficiencies were identified during the audit.

Please feel free to contact us if we can be of further assistance.

A handwritten signature in black ink, appearing to read "Edwin D. Pierce".

Edwin D. Pierce, CPA, CFE
Director

Enclosure

cc: P. Hendrickson
S. Olsen
S. Santon

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CAPITAL PROGRAMS
FUND MANAGEMENT REVIEW
AUDIT REPORT #15-2101

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Background

In accordance with the Campus fiscal year 2014-15 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated procedures established to govern key fund management functions within the UCLA Capital Programs (CP) department.

Capital Programs Overview

The CP department is responsible for conceptualizing, planning, designing, and constructing major capital construction and renovation projects at UCLA. Projects having total costs of \$750,000 and above are considered major capital construction. Since its establishment in 1986, CP has expended approximately \$4.6 billion to complete a variety of new construction, renovation, and infrastructure projects: two replacement hospitals and related parking facilities; nearly 50 new buildings or complexes; 25 major building additions; and five new parking facilities. In addition, seismic renovations have been completed on approximately 40 buildings, and a large number of existing buildings throughout the campus have been modernized. CP 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 CP department consists of the following three 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.

Administrative Services – includes building operations, information technology, and personnel, and is overseen by a Director who reports to the Vice Chancellor and Chief Financial Officer.

Plant funds, in general, are funds used for construction, renovations, and acquisition of capital assets. Funds can be categorized as unrestricted, restricted, permanent and temporary. Generally, unrestricted funds can be used for any purpose. Restricted funds are subject to limitations of use and purpose by the entity from which the funds originated. Permanent funds are those that are anticipated to be received on a consistent and ongoing basis. Temporary funds are those which are inconsistent and are generally provided on a one-time basis or for a limited period of time.

Purpose and Scope

The primary purpose of the audit was to evaluate internal controls and associated procedures that govern the fund management function. The scope of the audit included:

- Fund Source Restrictions
- Project Cost Overruns

- General Ledger Project Detail
- Information Systems

Where applicable, compliance with campus and University requirements was also evaluated.

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included tests of records and other auditing procedures considered necessary in achieving the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, CP's organizational structure and controls are generally conducive to accomplishing its business objectives related to fund management activities. No significant control deficiencies were identified during the audit.

The audit results are detailed in the following sections of this report.

Audit Results and Recommendations

Fund Source Restrictions

Interviews were conducted with CP management and staff to obtain an overview of various types of project funding restrictions, expense allowability and allocation methodology processes and controls. Six current projects were judgmentally selected from the CapSTAR Financial Balances report based on active status, overall activity and funding type (restricted or unrestricted) as determined in the campus OASIS fund table. Funding restrictions and allocation requirements were verified to funding source documents being maintained by CP management within the CapSTAR system, campus financial system, and/or project file. A sample of recent expenses from each project was selected from the campus General Ledger based on dollar amount and type of vendor service provided. Vendor invoices and other relevant documentation were obtained, evaluated, and reconciled to the campus General Ledger. Each selected expense was tested to verify the adequacy and accuracy of processing and posting to the General Ledger. A&AS audit tests included verifying that each expense was qualified as allowable and appropriately allocated based on funding terms and conditions, and approved allocation methodology.

No significant control or operational concerns were found in this area.

Project Cost Overruns

Interviews were conducted with CP management and staff to ascertain an understanding of department procedures and practices associated with project cost overruns (negative balances), related processes, supporting documentation and internal controls. Five current projects with cost overruns were judgmentally selected from the CapSTAR Negative Balances report. Supporting documentation including management correspondence, capital project summaries, CapSTAR auto-generated "Negative Balances" reports and emails were obtained and reviewed to evaluate the adequacy of daily negative balance monitoring. Evidence of management oversight and corrective

actions were assessed to ensure relevant information is properly documented to support project continuity and resolution of cost overrun status. CP management's methodology for monitoring negative balances was also assessed to verify that significant or unexpected changes to a project's negative balance are detected and evaluated on a timely basis.

No significant control or operational concerns were found in this area.

General Ledger Project Detail

Discussions with CP management and staff were conducted to gain an understanding of department practices related to capitalized project General Ledger detail, detail processing procedures, and the preservation of the detail post-capitalization information. Three recent capital projects were judgmentally selected from the capitalized projects list obtained from the campus General Accounting's Plant Accountant. The capitalized projects list was then cross-referenced to the CapSTAR Financial Balances report to ensure each selected sample project has an appropriate amount of activity to support the audit testing. Supporting documentation including the campus General Ledger, fund summary, and capitalization journal entries were evaluated and reconciled to verify their adequacy and accuracy. Project costs posted to the General Ledger were then reconciled to the amounts in each project's CapSTAR Financial Balances report to verify that the campus General Ledger line item detail is being adequately maintained and is available for future reference, as needed.

No significant control or operational concerns were found in this area.

Information Systems

CP management and the department's Information Technology (IT) manager were interviewed to obtain an overview and understanding of CapSTAR system functionality and information flow across various financial processes affecting fund management activities. CapSTAR reports and tables were reviewed and evaluated to ensure

adequacy. Queries were performed on CapSTAR data for active capital projects to verify data accuracy, consistency and completeness. Fund management and other financial-related responsibilities of the IT Manager were identified and evaluated to determine their compatibility with the IT Manager's role, potential effect on internal controls, and related access capability to the CapSTAR database and system structure.

No significant control or operational concerns were found in this area.