

UCLA AUDIT & ADVISORY SERVICES



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October 13, 2015

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

Re: Campus Service Enterprises – Asset Management Audit Report #15-2237

Enclosed is the audit report covering our review of Asset Management's property management activities over the 100 Medical Plaza (MP) building, and the UCLA Westwood Center (WWC) building. The primary purpose of the audit was to ensure that Asset Management's organizational structure and controls, and the related systems and procedures surrounding the property management functions are conducive to accomplishing its business objectives. The secondary purpose is to evaluate the adequacy and efficiency of internal controls. Where applicable, compliance with campus and University policies and procedures was also evaluated.

The scope of the audit included:

- Financial Management
- Billing and Collections
- Tenant Improvements (TI)
- Property Maintenance and Contracted Services

Based on the results of the work performed within the scope of the audit, internal controls over Asset Management's property management activities with regard to the WC and WWC buildings were generally conducive to accomplishing the department's business objectives. However, controls and business practices could be further strengthened by implementing the following:

Financial Management

- Implement appropriate business processes to ensure that all Asset Management department mandatory reviewers read their Post Authorization Notifications (PANs) in a timely manner in accordance with the UCLA Financial Policy. In addition, consider revising the range of transaction types that would generate a PAN to selected Mandatory Reviewers.

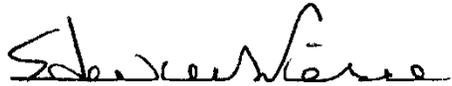
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The corrective actions implemented by management satisfactorily address the audit concerns and recommendations contained in the report. In accordance with our follow-up policy, a review to assess the implementation of our recommendations will be conducted approximately four months from the date of this letter.

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: S. Olsen

CAMPUS SERVICE ENTERPRISES
ASSET MANAGEMENT
AUDIT REPORT #15-2237

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ASSET MANAGEMENT
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Background

In accordance with the UCLA Administration fiscal year 2014-15 audit plan, Audit & Advisory Services (A&AS) conducted an audit of Asset Management's property management activities over the 100 Medical Plaza (MP) building, and the UCLA Westwood Center (WWC) building.

Both the UCLA MP and WWC buildings are overseen by Asset Management, one of six organizational units within UCLA's Campus Service Enterprises. Asset Management also provides property management services for the UCLA Wilshire Center. This audit focused on the MP and WWC buildings since A&AS recently performed a separate audit of the UCLA Wilshire Center in July 2014. As of March 31, 2015, the MP building had 46 tenants (33 UCLA, 13 non-UCLA) accounting for \$580,971 in monthly rental revenue. For the WWC building, there were 51 tenants (41 UCLA, 10 non-UCLA) accounting for \$537,740 in monthly rental revenue. In addition, the two buildings had 98.8% and 94.1% respectively of their total square footage leased to tenants.

As of January 30, 2015, Asset Management had 21 full-time equivalent (FTE) positions (14 filled positions with career or contract employees, and 7 unfilled positions). The unit is managed by a Director who reports to the Executive Director of Campus Service Enterprises.

For fiscal year 2013-14, the MP building had \$6.8 million of revenue and \$2.2 million in expenditures, while the WWC building had \$7.4 million of revenue and \$2.2 million in expenditures. The operating budgets for fiscal year 2014-15 were \$7.3 million for MP and \$7.8 million for WWC.

Purpose and Scope

The primary purpose of the review is to ensure that Asset Management's organizational structure and controls, and the related systems and procedures surrounding the property management functions are conducive to accomplishing its business objectives. The secondary purpose is to evaluate the adequacy and efficiency of internal controls. Where applicable, compliance with campus and University policies and procedures was also evaluated. The scope of the audit included:

- Financial Management
- Billing and Collections
- Tenant Improvements (TI)
- Property Maintenance and Contracted Services

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

Summary Opinion

Based on the results of the work performed within the scope of the audit, internal controls over Asset Management's property management activities with regard to the WC and WWC buildings were generally conducive to accomplishing the department's business objectives. However, controls and business practices could be further strengthened by implementing the following:

Financial Management

- Implement appropriate business processes to ensure that all Asset Management department mandatory reviewers read their Post Authorization Notifications (PANs) in a timely manner in accordance with the UCLA Financial Policy. In addition,

consider revising the range of transaction types that would generate a PAN to selected Mandatory Reviewers.

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

Audit Results and Recommendations

Financial Management

The Asset Management unit's financial accountability structure in the Distributed Administrative Computing Security System (DACSS) was evaluated as of March 4, 2015, to ensure that an effective delegation of authority for selected types of financial transactions is being maintained and complies with the UCLA Financial Policy on "Principles of Financial Accountability." The PAN system is a web-based system in which predefined mandatory reviewer(s) are required to log-in and review their PANs within two business days. Reviewers are established in the DACSS system by Process ID, which indicates the financial transactions they are authorized to review. PANs related to purchasing, interdepartmental recharges, and CASHNet transactions were examined to ensure timely review. A&AS also assessed the list of current mandatory reviewers for appropriateness. The following was noted during the review:

A. Post Authorization Notifications

Individual queries were generated for each of the two mandatory reviewers for department code 3189 (Asset Management) covering March 2015 activity, via the PAN Audit Review Report that is available through the campus PAN system. Because the report includes weekends and holidays in measuring aging, the query was set to extract PANs "unread" at five days, to compensate for transactions occurring on a Friday evening and/or holiday and including the weekends. The UCLA Financial Policy specifies that PANs should be read within two working days.

Query results of unread PANs greater than five days were reviewed to identify whether any PANs went unread by a mandatory reviewer and, therefore, were out of compliance. The listing of unread PANs was then sorted to identify the number range of days unread. The queries were generated to facilitate three audit tests for timeliness of review – one for each of the three transaction types noted above.

A&AS test work indicated that one of the two mandatory reviewers is not consistently reviewing their PANs within two working days of receipt, in accordance with the UCLA Financial Policy.

To evaluate PAN compliance for the three transaction types, A&AS accessed the PAN Audit Review Report to verify whether Asset Management's mandatory reviewers had any unread PANs in excess of five days. Based on the work performed, A&AS identified one mandatory reviewer in the report that showed unread PANs exceeding five days. The results of the review are as follows:

- Reviewer 1: No unread PANs exceeding 5 days
- Reviewer 2: 199 PANs were unread from 6 to 21 days

A&AS examined vacation time taken during March 2015 for Reviewer 2 to determine whether time away from work could have affected the volume of unread PANs. Based on a review of information gathered from the campus Employee Database system, it was noted that only one day of vacation was taken during the month of activity under review. Therefore, the amount of vacation time taken did not significantly impact the employee's ability to review their PANs.

Recommendation: Management should implement appropriate business processes to ensure that all department mandatory reviewers read their PANs in a timely manner in accordance with the UCLA Financial Policy. Management should also consider revising the range of transaction types that would generate a PAN to the above Mandatory Reviewer that had not read PANs in a timely manner. By doing so, the reviewer would be less likely to be inundated with large volumes of PANs from multiple transaction types, helping to facilitate greater compliance with the two-day review requirement set forth by the UCLA Financial Policy.

Response: Management by the end of October 2015 will revise the range of transaction types for Reviewer 2, adding a new Reviewer 3 and Reviewer 4 based on the transaction types in order to ensure that all department mandatory

reviewers read their PANs in a timely manner and reducing the large volume of PANs from multiple transaction types.

Billing and Collections

Tenant monthly billings and recharges are determined by the terms of the lease or occupancy agreements. Non-UCLA tenants are billed on a monthly basis, whereas University tenants are directly recharged at the end of each month. A sample of 20 tenant files (5 UCLA, 5 non-UCLA for each of the two buildings) were reviewed to ensure that rental amounts and any applicable escalation charges paid agreed to current agreements on file; and rental rates were accurate and aligned with the Policy Committee on Sales and Service Activities and Service Enterprises (POSSSE) approved rates. In addition, the billing, recharging, and collection of rent and escalation charges for the period of January 2015 through March 2015 were reviewed for accuracy and timeliness.

Audit test work included reviewing monthly billings and recharges on a sample basis via the campus CASHNet system and General Ledger to ensure that they corresponded with lease and occupancy agreements and were processed accurately and timely. Cash collections, deposit practices, and the monitoring of outstanding balances were reviewed to evaluate compliance with University and departmental policies and procedures. Collections aging reports were also reviewed for the MP and WWC buildings, as of May 2015, to determine the timeliness of tenant rental payments.

There were no significant control weaknesses found in this area.

Tenant Improvements

All tenants receive a Tenant Improvement Allowance (TIA) based on the rentable square footage when a lease or occupancy agreement is executed. The tenant may choose to receive a rent credit equal to no more than one-half of any unused TIA, per the agreement. Any such credit shall be amortized over the lease term. Tenant

Improvements for UCLA and non-UCLA tenants work the same way for calculating the TIA. All expenses have to be approved by the tenant and the Asset Management unit.

The process for managing TI for both types of tenants is also the same, unless UCLA includes specific terms in a tenant's lease. When the lease for a non-UCLA tenant includes provisions for the tenant to hire their own design professionals and contractors to perform tenant improvements, the University oversees the project using Property Management unit staff and/or a separate Construction/Project Manager and requires the following: (a) a "Notice of Non-Responsibility" is posted at the work site; (b) the University of California Regents are named as additional insured on all contracts and agreements held by the tenant for design and/or construction; and (c) all plans and construction documents prepared by the design professional/contractor must be processed through the UCLA Capital Programs' building inspection unit. No construction may begin until the plans and construction documents are permit ready (stamped and include a wet signature by the Plan Check department and by the University's State Fire Marshal). Throughout the construction, inspections must be completed as required on the permit set of plans. At the end of the project, the permit set of plans must include final inspections, as well as the Certificate of Occupancy signed by building officials and State Fire Marshal.

Fifteen tenant improvement expenditures (5 for MP, 10 for WWC) from the period of January 2015 through March 2015 were reviewed to verify that TI projects were monitored and completed timely, consistent with the lease agreement, and properly inspected by the Property Management unit and the tenant. Compliance with University policies and procedures was also examined. For expenditures exceeding the tenant allowance, A&AS verified that tenants were accurately recharged or billed and expenditures were properly recorded.

There were no significant control weaknesses found in this area.

Property Maintenance and Contracted Services

A. Property Maintenance

Work Orders are created for repairs or special services requested by the tenant and facilitated by Property Assistants, Property Managers, and Engineers. A Work Order system is used to manage and monitor all tenant requests. A sample of 10 work orders (5 for MP, 5 for WWC) and the corresponding supporting documentation was examined to verify that tenants were properly billed in a timely manner, and charges were accurately recorded. Based on the work performed, A&AS determined that supporting documentation was adequate for the sample items tested, tenants were properly and timely billed, and associated charges were accurately recorded.

There were no significant control weaknesses found in this area.

B. Contracted Services

A&AS selected a separate sample of 10 contracted services invoices from the period January 2015 through March 2015 for review to ensure that they were properly approved for payment, the amount paid agreed to the invoice, and services were inspected for satisfactory performance. Five of the ten invoices were clearly signed in a stamped field by the Chief Engineer due to the nature of the technical work performed. The remaining five invoices reviewed contained various dates and sets of initials from Asset Management staff, such as the Financial Administrator for the building, Project Manager, and Contracts Manager. All items tested included the department's approval stamp with the Director's initials indicating a final approval.

There were no significant control weaknesses found in this area.