CAPITAL PROGRAMS

RECHARGE PROCESS REVIEW

AUDIT REPORT #16-2104

Audit & Advisory Services

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Background

In accordance with the Campus fiscal year 2015-16 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated business practices established to generate, process, and document client recharge billings 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. 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 business objectives are 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.

*Recharge Process – Overview*

Recharging entities such as the CP department, provide specific, ongoing services to more than one campus department or project, and recover the cost of providing those services from the customer or project on a per-unit rate basis. These entities are expected to charge rates that reasonably and equitably recover the costs of operating the service (e.g., salaries, benefits, equipment depreciation, materials, and supplies), and function on a break-even basis. While the University should not provide goods or services that are readily available from outside sources, a recharge activity may be established if there are overriding economic, ethical, or other institutional issues to support the need for the University to provide the service. However, the activity should be related to the University’s core missions of teaching, research, and public service.

UCLA’s recharge rates and other aspects of sales and service activities having a financial impact on the campus are governed by the Policy Committee on Sales and Service Activities and Service Enterprises (POSSSE). UCLA Policy 340, “Sales and Service Activities,” established by POSSSE, serves as a guideline for the establishment, operation, review, and closure, of all sales and service activities at UCLA. POSSSE is responsible for annually reviewing the Budget and Rate Proposal of any sales and service activity that serves the entire campus and generates an annual income of greater than $1 million.

The CP funding model for major capital projects is based on a recharge system that adds a “burden rate” to all departmental units to cover the full range of services provided as part of the capital project delivery process. Time charged by project managers, construction managers, inspectors, and other direct charge staff help cover the related overhead costs of various support services.

Since fiscal year 2012-13, CP has also recharged for its support services provided to direct delegation units such as Housing & Hospitality Services, Facilities Management, and the UCLA Medical Center. Support services include costs to the units associated with CP financial staff, contract administration, records management, plan room personnel, etc.

For fiscal year 2015-16, recharge revenue for CP was budgeted at $10.7 million.

Purpose and Scope

The primary purpose of the review was to ensure that CP’s organizational structure and controls surrounding recharge activities are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University requirements was also evaluated. The scope of the audit focused on the following areas:

* Recharge Procedures
* Recharge Process and Calculations
* Recharge Reconciliations
* Information Systems

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included such tests of records, interviews, 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 recharge activities. There were no significant control deficiencies identified during the audit.

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

Audit Results and Recommendations

Recharge Procedures

Discussions were conducted with both the CP Financial Services and Information Systems management groups to obtain an overview of recharge processes and controls. Departmental procedures for weekly time reporting; Capital Projects Status, Tracking and Reporting (CapSTAR) system financial data preparation; and month-end recharge processing were evaluated for adequacy.

CP’s departmental procedures focus on the primary steps for weekly and month-end recharge cycles. The procedures are intended to supplement the knowledge base of existing staff for properly processing recharges on a timely basis should there be an extended leave of absence. A&AS determined that the departmental procedures for recharge processes appear adequate.

A&AS also verified that relevant recharge processing responsibilities are incorporated into the Financial Services and Information Systems staff’s everyday tasks, and cross-training for these processes is considered part of management’s existing operational requirements. During the audit period, a department employee who has key recharge processing responsibilities was out for an extended leave-of-absence. As a result, A&AS assessed how these responsibilities were assumed by existing staff. Even with the above employee’s extended leave-of-absence, weekly and monthly recharge processing continued to be performed on a timely and efficient basis. Current staff responsibilities provide sufficient overlap to maintain the recharge function should there be an extended leave-of-absence and/or retirement of key employee(s).

There were no significant control weaknesses noted in this area.

Recharge Process and Calculations

A judgmental sample of five active projects, which included projects with recharges to Facilities Management and other campus departments, was selected for audit testing. Each project has a different project manager and subject type, and recharges ranged from $119,576 to $824,100.

For the sample projects, an analysis was performed to verify that recharge amounts posted in CapSTAR are accurately recorded, processed in a timely manner, and reconcile to the Campus General Ledger. The period analyzed was October to November 2015. Based on our analysis, amounts reported for the sample projects in CapSTAR accurately reconcile to those reported in the Campus General Ledger.

A&AS also performed an analysis of selected line item recharge transactions from employee timesheets maintained in CapSTAR or other source documentation to verify that line item amounts accurately flowed through to the recharged amounts. Additionally, A&AS verified that current POSSSE rates were used in the calculation of amounts recharged, recharge supporting documentation was adequate, and adjustments, if any, were appropriately approved and adequately supported by written explanation.

For the test period of October and November 2015, A&AS reviewed the CapSTAR Labor Charges Report for the five sample projects. The labor report contains information such as employee time posted to a specific project, recharge code and description, hourly recharge rate, and the total calculated weekly amount to be recharged to a project on a per employee basis. A judgmental sample of 50 weekly line item recharge transactions was selected for testing to determine whether appropriate POSSSE rates were used. The sample of 50 items includes 25 items from October 2015 and 25 items from November 2015.

The selected recharge transactions were traced to the calculated weekly and monthly amounts on a per employee, per project basis, and subsequently traced to the Campus General Ledger.

A&AS also verified that the recharge transactions were accurately recorded and processed in the weekly and monthly calculated amounts within CapSTAR, and those amounts were properly posted to the Campus General Ledger on a timely basis. Supporting documentation for the transactions tested was also determined to be adequate.

There were no significant control weaknesses noted in this area.

Recharge Reconciliations

A&AS conducted meetings with CP Financial Services management, CP Information Systems management, and Campus IT Services staff to obtain a detailed overview of the reconciliation processes for its CapSTAR system recharge data extraction, file creation, and subsequent upload to the Campus General Ledger.

CP recharge data is accumulated in the CapSTAR system. In order to move the data to the Campus General Ledger, it is first reviewed for accuracy by the CP Accounting Manager to ensure transactions are coded to the correct project and full accounting unit (FAU). On a weekly basis, CP Information Systems management runs an automated computer routine to validate that required FAUs have been set-up. Once the review is completed, the Accounting Manager uses CapSTAR to extract recharge data and build a computer file. This file is then formatted by Information Systems personnel and uploaded to a secure IT Services account folder. The upload process is a file transfer protocol (FTP) which is a standard network protocol used to transfer computer files between a client and server. This FTP process uses separate control and data connections between the client and the server. Once the file is uploaded to the secure account folder, IT Services runs a scheduled routine to transfer the extracted recharge data to the Campus General Ledger. Once the recharge data transfer is complete, IT Services notifies CP Information Systems staff confirming the number of recharge records uploaded and a check-sum total of the recharge amounts. Once this process is complete, each recharge line item that was uploaded to the Campus General Ledger is reconciled to each original recharge line item in CapSTAR. The CapSTAR system has an automated reconciliation feature that performs the reconciliation process. A&AS determined that the recharge reconciliation process for the amounts extracted from CapSTAR and subsequently uploaded to the Campus General Ledger is adequate and appropriate.

There were no significant control weaknesses noted in this area.

Information Systems

Access rights granted to CP staff for the CapSTAR system’s recharge functions were tested for appropriateness. Department Information Systems management provided a list of employees that are able to perform “correcting entries” to the recharge data. Testing was performed to verify that department staff that have access are current employees and that their responsibilities require such access. A&AS also verified how access to the IT Services secure account folder is granted.

CP staff that are assigned CapSTAR recharge “correcting entry” rights include the four staff in CP Financial Services since they administer and process the submitted weekly and monthly recharge activity. Additionally, the four CP Information Systems staff are assigned CapSTAR recharge “correcting entry” rights as part of their CapSTAR system support role. Lastly, the CP Human Resources Manager has been assigned CapSTAR recharge “correcting entry” rights to make adjustments to recharged hours in case sick leave time was posted as vacation time or vice versa. Access is assigned by the CP Information Systems Manager. CP staff that are assigned access to the IT Services secure account folder include the CP Information Systems Manager and the CP Information Systems Assistant Manager. Access to the IT Services secure account folder is assigned by authorized IT Services staff based on approval by CP management.

A&AS determined that access assigned to the CapSTAR system and IT Services secure account folder is appropriate based on responsibilities granted to current CP employees.

There were no significant control weaknesses noted in this area.

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