

UCLA AUDIT & ADVISORY SERVICES



Edwin D. Pierce, CPA, CFE
Director

10920 Wilshire Boulevard, Suite 700
Los Angeles, California 90024-1366
310 • 794-6110
Fax: 310 • 794-8536

April 2, 2015

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

Re: Capital Programs – Contract Management Audit Report #15-2103

Enclosed is the audit report covering our review of internal controls and related contract management business practices within the UCLA Capital Programs department.

The primary purpose of the audit was to ensure that Capital Programs' organizational structure and controls surrounding its contract management processes are conducive to accomplishing its business objectives. The scope of the audit included:

- Bidding and Contracts Administration
- Unit Price/Job Order (UPJO) Contracts
- Insurance and Bonds

Based on the results of the work performed within the scope of the audit, the Capital Programs department has adequate systems of internal controls relating to the competitive bidding processes for construction projects and UPJO contracts. In addition, the required insurance coverage and bonds were obtained for the sample of projects reviewed. However, some business practices could be further strengthened to ensure that controls consistently function as intended. Such as the following:

- Management should perform additional outreach in coordination with Facilities Management to increase the pool of bidders for plumbing and heating, ventilating and air conditioning (HVAC) insulation jobs to ensure Capital Programs is getting the most competitive rates. There has only been one bidder on these types of jobs over the past ten years.
- A review should be performed to determine if a more secure alternative is available for the off-site backup of certified payroll records for construction projects. During the period of the audit, these records were maintained on a portable hard drive that was stored at the Director of Contract Management's personal residence.

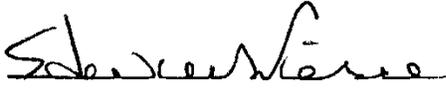
The corrective actions implemented by management satisfactorily address the audit concerns and recommendations contained in the report. In accordance with our follow-up policy, a review to assess the implementation of our recommendations will be conducted approximately four months from the date of this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

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

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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
CONTRACT MANAGEMENT
AUDIT REPORT #15-2103

CAPITAL PROGRAMS
CONTRACT MANAGEMENT
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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 related contract management business practices within the UCLA Capital Programs department.

The primary objective of the Capital Programs contracts management function is to help ensure that the procurement of capital construction related services conform to the California Public Contract Code and University of California (UC) Facilities Manual. Although some campus departments such as Facilities Management, Housing & Hospitality Services, the UCLA Medical Center, and IT Services have been delegated authority to execute capital construction projects, all bidding and awarding requirements are handled by the contracts management function within Capital Programs. Pre-award responsibilities include reviewing all contract related documents such as prequalification questionnaires, bid documents, “best value” selection criteria, bid advertisements, receiving and opening bids, verifying all required items are submitted by bidders, reviewing bid protests, posting bid results, and coordinating the execution of contracts. Post-award responsibilities include verifying all required insurance and bonds are obtained to cover construction projects, handling requests for subcontractor substitutions, and reviewing payroll records for prevailing wages. This area is lead by the Director of Contracts & Records Management, who reports to the Associate Vice Chancellor of Capital Planning and Finance.

Purpose and Scope

The primary purpose of the audit was to ensure that Capital Programs' organizational structure and controls surrounding its contract management processes are conducive to accomplishing its business objectives. The scope of the audit included:

- Bidding and Contracts Administration
- Unit Price/Job Order (UPJO) Contracts
- Insurance and Bonds

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, the Capital Programs department has adequate systems of internal controls relating to the competitive bidding processes for construction projects and UPJO contracts. In addition, the required insurance coverage and bonds were obtained for the sample of projects reviewed. However, some business practices could be further strengthened to ensure that controls consistently function as intended. Such as the following:

- Management should perform additional outreach in coordination with Facilities Management to increase the pool of bidders for plumbing and heating, ventilating and air conditioning (HVAC) insulation jobs to ensure Capital Programs is getting

the most competitive rates. There has only been one bidder on these types of jobs over the past ten years.

- A review should be performed to determine if a more secure alternative is available for the off-site backup of certified payroll records for construction projects. During the period of the audit, these records were maintained on a portable hard drive that was stored at the Director of Contract Management's personal residence.

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

Audit Results and Recommendations

Bidding and Contracts Administration

A&AS reviewed the UC Facilities Manual to identify the policies, procedures, and guidelines for bidding and awarding construction contracts. Discussions were conducted with key Capital Programs personnel to determine the specific practices at UCLA. Five capital construction projects were judgmentally selected and reviewed to verify compliance with bidding and awarding requirements.

Documents in SharePoint and information in the CapSTAR system were reviewed for the projects sampled. The following were noted:

- Projects were publicly advertised.
- Bids were received by established deadlines and publicly opened.
- Required documents were submitted by bidders.
- Contractors selected were appropriate based on the evaluation methods prescribed.

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

Unit Price/Job Order (UPJO) Contracts

UPJO contracts are indefinite quantity agreements where contractors agree to perform recurring tasks for key trades such as painting, plumbing, electrical, insulation, flooring, on an “as needed” basis. These are blanket construction contracts, where future job orders with the specific scope of work are issued when needed. Competitive bidding and awarding requirements must be followed for these contracts. Recurring tasks with projected quantities needed are identified and contractors bid a unit price for each task. The sum of all unit prices multiplied by the projected quantities needed is tallied and the contractor with the lowest bid is awarded the contract. The maximum dollar value varies for each contract; however, the contract could total up to \$8 million.

Based on a previous A&AS audit issued in October 2007 (#06-2004), the same contractors were being awarded these unit price/job order contracts year after year. Although publicly advertised, there was only one bidder for over 50% of the agreements reviewed. Discussion with Capital Programs management indicated that there was a strong construction market during this period, and public works projects were less desirable than private sector projects; however, more outreach would be performed to try to increase the bidder pool.

As part of this audit, A&AS determined if the same contractors were awarded these types of contracts or if the pool of bidders had increased. A list was compiled from the CapSTAR system of all UPJO contracts awarded. A&AS noted that for some trades the same contractors have been awarded contracts year after year. A&AS selected the top five vendors who were awarded the most contracts to verify whether the jobs were competitively bid and if the number of bidders had increased.

The sampled vendors and contracts awarded were publicly advertised, competitively bid, and the lowest responsible bidder was selected. Test work indicated that for four of the five vendors, there were multiple bidders for the contracts awarded. However, for one trade, plumbing and HVAC insulation, there has only been one bidder over the past 10 years. As a result, the university may not be receiving the most competitive rates.

Recommendation: Management should coordinate with Facilities Management personnel to perform additional outreach to increase the pool of bidders for plumbing and HVAC insulation jobs to ensure Capital Programs is getting the most competitive rates.

Response: All projects exceeding \$100,000, including the one cited above, are publicly advertised in accordance with California Public Contract Code legal requirements and University policy. As with all publicly advertised projects, Contracts Administration took additional outreach steps by advertising in a major industry publication aimed at small businesses, as well as posting the job on our website. Also, each time a project is

issued for bid, Contracts Administration emails the project manager a PDF of the Advertisement and strongly recommends he/she send it to all contractors/subcontractors they would like to see participate in the bidding. Finally, Contracts Administration developed an online bidder registration system in early 2013 by which contractors can receive an automatic email every time a new bidding opportunity is posted. At the time the contract in question was issued for bid, 367 companies were notified of the project.

Despite all of these outreach efforts, the single trade contracts have not historically seen as many bidders participate as multi-trade projects. In researching this over the years, single trade contractors, who typically perform as subcontractors, have told us that they are not interested in acting as a prime contractor directly with a public entity since they feel they are not well versed in the contract administration portion of the work usually managed by a general contractor.

It should be noted that, despite a single contractor ultimately winning multiple insulation jobs, other entities have participated in the past bidding of these projects (2002 saw three bidders submit bids; in both 2004 and 2006 two bidders initially participated but only one finally submitted a bid; in 2008 five bidders initially participated but only one eventually submitted a bid; in 2010 three initially participated and two submitted bids). Over the years Contracts Administration has held informal discussions with the contractors who did not submit bids. We were told that they felt they could not compete with the low pricing of the contractor who has repeatedly won the jobs.

Contracts Administration will continue to perform all of the aforementioned outreach activities for all publicly advertised projects.

Insurance and Bonds

Construction projects require various types of insurance coverage depending upon the type of work involved and total project costs. General liability, business automobile, and Workers' Compensation insurance are required for all projects. Builder's Risk

Insurance is required for all projects greater than \$200,000. All projects greater than \$25 million are required to obtain coverage through the University Controlled Insurance Plan. Projects involving hazardous materials require Contractors Pollution Liability. Bid, payment, and performance bonds are required for all projects, with the amount based on the project costs.

Five capital construction projects were judgmentally selected and certificates of insurance and bond documents were reviewed to verify that required insurances and bonds were obtained to cover the projects. All projects reviewed had the required insurance coverage and bonds. Contracts management staff monitor the expiration dates for insurance coverage and obtain updated certificates of insurance from contractors or request extensions for insurance obtained by the University. Contracts management staff also verify that bidders obtain bid bonds and contractors selected obtain payment and performance bonds.

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

Other Observation

Certified Payroll Records

During the period of the audit, electronic certified payroll records which include Personally Identifiable Information (PII) for construction projects were backed up onto a portable hard drive and stored at the Director of Contract Management's personal residence. Discussions with management indicated that the portable hard drive is encrypted and password protected. Although it is a good business practice to store backup copies of data at an off-site location, and use of an encrypted storage device aligns with UCLA Policy 404 "Encryption of Electronically Stored Personal Information," there may be more secure options than having an employee take the storage device to their personal residence. In addition, UCLA Policy 420 "Breaches of Computerized Personal Information" would require the Capital Programs department to bear associated costs should a data breach occur with this information.

Recommendation: Management should evaluate if a more secure alternative is available for the off-site backup of the certified payroll records for construction projects.

Response: The back-up drive was removed from the personal residence on July 21, 2014, and placed in a locked cabinet in the Capital Programs Building.