CAPITAL PROGRAMS

RECHARGE PROCESS

AUDIT REPORT #20-2104

Audit & Advisory Services

May 2020

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Background

In accordance with the Campus fiscal year 2019-20 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and related business processes established to generate, execute, and document client recharge billings within the UCLA Capital Programs (CP) department.

*Capital Programs Overview*

Capital Programs is responsible for conceptualizing, planning, designing, and constructing major capital construction and renovation projects at UCLA. Projects having total costs of $1 million and above are considered major capital construction. The department 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.

Capital Programs consists of the following two areas:

* Capital Planning and Finance – responsible for planning, project development and financial services including project accounting, contracts administration, information technology, and human resources. 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 delivery activity including design, project management, construction management, engineering services, and inspection. This area is led by an Associate Vice Chancellor 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 2019-20, recharge revenue for CP was budgeted at approximately $10.3 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 the department’s business objectives. Where applicable, compliance with campus and University policies and procedures was also evaluated.

The scope of the audit focused on the following areas:

* Recharge Procedures
* Recharge Rates
* Recharge Transaction Processing

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

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 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 Technology (IT) management groups to obtain an overview of recharge processes and controls. Detailed Internal Control Questionnaires (ICQs) were employed to confirm existing practices and identify any significant changes since the prior audit was conducted in 2016. Procedures for weekly time reporting within the department’s Capital Projects Status, Tracking and Reporting (CapSTAR) system, financial data preparation; and month-end recharge processing were reviewed for adequacy.

Weekly timesheets are finalized and processed by the Financial Services Administrative Analyst the following Wednesday of each week’s cycle. Each Project Manager receives an automated email from CapSTAR that prompts the Project Manager to review time charged to their projects using the CapSTAR CP509 and CP509A (budget tracking) reports. The CP509 report reflects amounts charged by Full Accounting Unit (FAU), project number, cost center, sub code, etc. The CP509A report reflects time charged to projects by employee.

The weekly timesheet line items are maintained as memo items in CapSTAR until month-end processing is complete. Project Managers and/or Supervisors will review and approve their staff’s weekly timesheets. On Wednesdays, the Financial Services Administrative Analyst will finalize (lock) and process the weekly timesheets. Subsequently to locking the timesheets, two budget tracking reports are generated through CapSTAR. The last page of each report is then emailed to the Financial Services Assistant Director on a weekly basis. At month end, the Administrative Analyst will send the completed budget tracking reports to the Assistant Director for review before recharge information is uploaded to the Campus General Ledger. The Assistant Director reviews and approves the month-end time sheets, CP fees, and other charges to projects.

After the Assistant Director approves the month-end recharge information, the department’s IT management will receive an email or verbal notification from the CP Accounting Unit that the CapSTAR extraction (text) file is ready to be uploaded to the Campus IT Services queue for processing. Campus IT Services will notify CP when a successful upload has occurred. IT services will then process the CP text into the Campus General Ledger. The following day after the General Ledger upload, the Assistant Director will compare the information posted to the General Ledger by account and fund with the corresponding CapSTAR projects to ensure the accuracy and completeness of the upload.

CP’s departmental recharge procedures – from both a financial and information technology perspective – detail the primary steps for weekly and month-end recharge cycles. The procedures help to supplement the existing staff knowledge base for properly processing recharges on a timely basis. A&AS also verified that relevant recharge processing responsibilities are incorporated into the Financial Services and IT staff’s daily, weekly, and monthly tasks. 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). A&AS determined that the departmental procedures for recharge processes appear adequate.

There were no significant control weaknesses noted in this area.

### Recharge Rates

### A&AS evaluated the controls related to recharge rates to verify that they are adequate and appropriate. Discussions were held with CP Financial Services personnel regarding the submission and approval of recharge rates from the Office of Academic Planning and Budget (APB). Copies of the Capital Programs’ Budget proposal, submission, and APB approval emails were also reviewed.

The rates recharged for various CP staff time are approved by APB. After the rates are approved, each rate is programmed into CapSTAR by CP IT personnel. The rates established in CapSTAR are reviewed and approved by the Financial Services Assistant Director. Generally, the rates (per the APB submittal) are based on the projected volume of hours for each employee that will be incurred for the amount of projects in that year. The rates also include an overhead burden component for employees (and other costs as deemed appropriate) that are not recharged to a specific project (e.g., CP Human Resources staff are 100% overhead burden). None of the department’s Human Resources personnel costs are charged directly to a project. Rather, the rate for the employees that are charged to a project (such as Project Manager, Inspector, etc.) have built into their rate a cost factor for the Human Resources staff as part of the overhead burden).

For the annual APB-approved recharge rates, CP IT maintains an “historical table” of rates for reference purposes. Once new APB approved rates are received, an update is performed to the “current rate table.” Rates are then updated retroactively back to the effective date by performing a reversing entry in CapSTAR (i.e., reversing out the existing entries based on the old rates and replacing them with entries based on the new rates). Typically, the new rates will be effective July 1 of the current year; however, if the new rates are approved after August then this retroactive process occurs. This activity can be traced, matched, and reconciled in CapSTAR and the General Ledger.

### Based on A&AS review of the relevant documents and emails, Capital Programs submitted its Fiscal Year 2019-20 Budget and Rate Proposal to APB timely, and the rates were properly approved.

### There were no significant control weaknesses were noted in this area.

### CapSTAR System Rates

### To gain a deeper understanding of how recharge rates are programmed and utilized within the CapSTAR system, A&AS conducted discussions with personnel from both the CP Financial Services and IT groups. These discussions disclosed that IT personnel update the recharge rates within CapSTAR after approval from APB each fiscal year. Once the rates are input to CapSTAR, they are reviewed by the CP Financial Services unit for accuracy.

### A&AS obtained a report of the recharge rates in CapSTAR from the Capital Programs IT Manager and reviewed the rates associated with specific job titles and employees. Each employee’s job title in CapSTAR was then compared with the corresponding title located in UCPath to verify that the approved recharge rate was accurately programmed into the CapSTAR system.

Based on our review of supporting documentation and discussions held with management, Capital Programs is accurately programming approved recharge rates into the CapSTAR system.

### There were no significant control weaknesses noted in this area.

Recharge Transaction Processing

Internal controls surrounding recharge transaction processing were reviewed to verify that they are adequate and working as intended. Additionally, discussions were held with the CP Financial Services Assistant Director to gain an understanding of the reconciliation and recharge processes used by department personnel. A&AS also conducted meetings with CP Financial Services and IT management, and Campus IT Services staff to obtain a detailed overview of the reconciliation processes used for its CapSTAR system recharge data extraction, file creation, and subsequent upload to the Campus General Ledger.

### CapSTAR Reconciliation

There are two separate control functions performed by Financial Services staff at the end of each month for Capital Programs recharges. The first is a review that examines the charges prior to those items being uploaded to the Campus General Ledger. The second month-end task involves a reconciliation of the expenses that were actually uploaded to the General Ledger with what is recorded in the CapSTAR system. A further description of these two key financial controls is shown below.

*Review* – The review is performed before the CapSTAR extraction file is uploaded to the Campus IT Services queue. The Financial Services Assistant Director reviews CapSTAR reports to ensure the detail for the charges appears reasonable. Expenses are reviewed on a spot check basis to ensure they are charged to the appropriate funds. If an error is found, the appropriate adjustment is made and the reports are generated again. When all corrections have been reviewed and validated, the Assistant Director notifies the department’s IT Manager that the CapSTAR extraction file is ready to be uploaded.

*Reconciliation* – The reconciliation is performed after the CapSTAR information is uploaded to the IT Services queue and then subsequently uploaded to the UCLA General Ledger. When projects are initially charged in CapSTAR, they are considered “memo expenses” which are essentially placeholders for the expenses. The following day after the upload, the Financial Services Assistant Director compares what posted to the General Ledger by FAU to the corresponding CapSTAR projects. The General Ledger amount will be summed up into one line item total. Financial Services personnel then compare the single line item total from the General Ledger to the memo expenses in CapSTAR for each of the respective project(s). After all memo expenses have been verified and selected in CapSTAR, they should equal the summed line item total that posted to the General Ledger. The memo expenses then become the actual expenses in CapSTAR and are added to the accumulated costs incurred for the respective project(s).

### Considering the processes outlined above, A&AS obtained access to the CapSTAR system from the Capital Programs IT Manager to generate CapSTAR reports for audit testing. A sample of 15 projects was selected for review to verify that the recharge amounts reported in the CapSTAR system reconciled to the amounts reported in the Campus General Ledger.

### Based on the results of audit testing for the 15 selected projects, the recharge amounts listed in the CapSTAR system reconciled properly to the Campus General Ledger.

### There were no significant control weaknesses noted in this area.

### Recharge Process

### A&AS conducted discussions with CP management to obtain an understanding of departmental processes utilized to ensure that recharge rates assessed for construction projects are in accordance with those approved by APB. A judgmental sample of 75 recharge transactions were selected for audit testing to verify that the correct recharge rate was used, the recharge amount was accurately calculated and timely charged, and the appropriate supporting documentation was on file for the project.

### Based on the work performed, audit results showed that all 75 sample items tested used the correct recharge rate, the recharge amount was accurately calculated and timely charged, and amounts were adequately supported. .

### There were no significant control weaknesses noted in this area.

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