

UCLA AUDIT & ADVISORY SERVICES



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March 23, 2015

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

Re: Facilities Management – Negotiated Contracting Review Audit Report #15-2002

Enclosed is the audit report covering our review of internal controls and procedures governing the negotiated contracting process utilized by the Facilities Management (FM) department. The primary purpose of the audit was to ensure that the associated procedures and practices surrounding FM's organizational structure and controls over negotiated contracts are conducive to accomplishing the department's business objectives. Where applicable, compliance with campus and University requirements was also evaluated.

The scope of the audit included the following activities:

- Contract Awards and Supporting Documentation
- Separation of Duties
- Policies and Procedures

Based on the results of the work performed within the scope of the audit, FM's internal controls and related procedures governing "negotiated contracts under \$50,000" and "informal competitive bidding contracts under \$50,000" are generally adequate and effective to help accomplish their business objectives. However, management could further strengthen controls over project document preparation, organization and retention. In addition, written departmental procedures should be established for negotiated and informal competitive bidding contracts under \$50,000.

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: J. Powazek

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FACILITIES MANAGEMENT
NEGOTIATED CONTRACTING REVIEW
AUDIT REPORT #15-2002

FACILITIES MANAGEMENT
NEGOTIATED CONTRACTING REVIEW
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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 internal controls and procedures governing the negotiated contracting process utilized by the Facilities Management (FM) department.

As defined by the University of California Office of the President's (UCOP) Construction Services Facilities Manual (Facilities Manual) Vol. 5, Chap. 1, Sec. 1.3, a construction contract may be negotiated between the University and a contractor if the construction cost of the project does not exceed \$50,000. A construction contract that does not exceed \$50,000 may be awarded by informal competitive bidding or by negotiated contracting as described in the Facilities Manual.

From July 2012 to September 2014, there were 109 negotiated contracts under \$50,000 with an approximate total value of \$2.4 million that were executed by FM.

Purpose and Scope

The primary purpose of the audit was to ensure that the associated procedures and practices surrounding FM's organizational structure and controls over negotiated contracts are conducive to accomplishing the department's business objectives. Where applicable, compliance with campus and University requirements was also evaluated.

The scope of the audit included the following activities:

- Contract Awards and Supporting Documentation
- Separation of Duties
- Policies and Procedures

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 procedures considered necessary to achieve the audit purpose.

Summary Opinion

Based on the results of the work performed within the scope of the audit, FM's internal controls and related procedures governing "negotiated contracts under \$50,000" and "informal competitive bidding contracts under \$50,000" are generally adequate and effective to help accomplish their business objectives. However, management could further strengthen controls over project document preparation, organization and retention. In addition, written departmental procedures should be established for negotiated and informal competitive bidding contracts under \$50,000.

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

Audit Results and Recommendations

Contract Awards and Supporting Documentation

Interviews were conducted with FM management and project managers, and Capital Programs management to obtain an overview of “under \$50,000 negotiated contracts” and “under \$50,000 informal competitive bidding” contracts. Processing activities related to FM project work flow, including information being maintained within Capital Programs’ CapSTAR system’s contract administration module and SharePoint document repository system, was assessed for adequacy and conformity with the Facilities Manual. Negotiated contracts under \$50,000 and informal competitive bidding contracts under \$50,000 were tested on a sample basis to verify adequacy and completeness of project files. Testing included evaluating available supporting documentation such as recommendation for award memoranda, justifications, various types of notices, change orders, and other required documents for adequacy, appropriateness, proper approvals and chronological timeliness.

A. Change Orders

Of the 15 contracts tested, 6 (40%) had total payments that differed from the approved contract amount. Four items had payments that exceeded the contract, whereas the remaining two had payments totaling less than the approved contract amount. The Facilities Manual requires that a contractual change order be approved whenever there is a revision, increase or decrease, or deletion to the existing requirements of the work, or an adjustment to the contract sum and/or contract time. A&AS review found that none of these six test items had contractual change orders on file for the post-award revision to the contract. Each of the contract payments was requested (authorized) by the respective project manager and then processed through the BruinBuy system. As a result, all of the transactions were subject to review by the designated PAN (post-authorization notification) mandatory and non-mandatory reviewers in accordance with the UCLA Financial Policy.

Recommendation: Management should ensure that all post-award modifications to construction contracts are properly completed by executing a change order to substantiate the contractor's concurrence with the contract modification.

Response: Concur. Management will issue a formal process and procedure to all personnel authorized to manage/administer negotiated contracts, which will include proper procedures for issuing and executing change orders, in particular, use of correct change order forms. We expect to have this completed by August 1, 2015.

B. Incomplete Supporting Documentation

A&AS reviewed a sample of 15 test items to determine whether adequate documentation was being maintained in project files to substantiate accepted contract pricing, contract negotiations, and project budgets in accordance with Facilities Manual requirements. Based on the work performed, the following were noted:

- Twelve of fifteen items tested (80%) have no supporting documentation for the justification of the accepted price as being reasonable. Of the remaining three test items, one was cancelled, and the other two items were selected through informal bidding; therefore, the documentation requirement did not apply.
- Twelve of fifteen items tested (80%) have no minutes of project meetings, notes, correspondence, or other supporting documentation substantiating negotiations between the project manager and the contractor. Of the remaining three test items, one was cancelled, and the other two items were selected through informal bidding; therefore, the documentation requirement did not apply.
- Fourteen of fifteen items tested (93%) have no supporting documentation for the basis, calculation, reasonability and approval of a project's budget. The

remaining contract was cancelled. The current website for FM's Design, Project Management & Operations division, provides for developing a written estimate of probable costs based on a project's needs and scope of work.

Recommendation: Management should ensure that the appropriate types of documentation are uniformly maintained in each project file. The documentation should ensure that all aspects related to negotiated contracts are substantiated and that Facilities Manual requirements are consistently met.

Response: Concur. Management will issue a formal process and procedure to all personnel authorized to manage/administer negotiated contracts, which will include specific listings of the documents that are to be kept in each project file similar to the files for all DMPO UPJO and formal bid solicited projects. We expect to have this completed by August 1, 2015.

C. Project Documentation Dates

One of fifteen items tested (7%) disclosed that dates on relevant bid documents do not align properly based on project sequencing. For example, the "Recommendation of Award Memorandum" is dated prior to the date on the "Rotating Bidders List Referral Form" which should precede the recommendation form. The "Bid Form" from one bidder is dated before the "Rotating Bidders List Referral Form." Lastly, the "Bid Form" from a separate bidder is undated. Neither "Bid Form" is properly signed and dated by the respective bidders.

Recommendation: Management should ensure that all documentation pertaining to project bidding and administration are chronologically correct in order to support the reliability and integrity of the construction process required by the Facilities Manual. Additionally, the "Bid Forms" being utilized should be revised to require the dated signature of the bidders in order to corroborate when the bids were submitted and by whom.

Response: Bid forms are required to be submitted directly to Capital Programs Contracts Administration. The Bid Forms are developed and administered by that office. Management will request Capital Programs Contracts Administration to amend the Bid Form to include a dated signature. We expect to have this completed by August 1, 2015.

D. Rotating Contractors List

Of the 15 sample items tested, 2 were awarded through informal competitive bid contracts. One of these items had no evidence that the awarded contractor was selected using the rotating contractors list. The second test item was appropriately documented and included the “Rotating Bidders List Referral Form” as a part of the contract file. The Facilities Manual requires that contractors must be selected on a rotating basis from a pool of responsible contractors able to perform such work when informal competitive bidding is used.

Recommendation: Management should ensure proper documentation that appropriately supports the selection of contractors on a rotating basis from the rotating contractors list is maintained within each project file.

Response: New legislation regarding informal bidding was recently passed. This legislation 1) raises the limits for informal bidding, 2) creates two tiers for informal bidding, and 3) adds requirements for prequalified contractors. Capital Programs Contracts Administration is overseeing development of processes associated with the new legislation. Management will work with Capital Programs Contracts Administration to ensure processes internal to Facilities Management for informal bidding comply with the new legislation. We expect to have this completed by August 1, 2015.

E. Project Location Information

Five of fifteen “Recommendation for Award” memoranda tested (33%) do not have specific project location information, such as building name and address, floor and room number, and/or other specific location information that is consistent with location information maintained in the Campus Space Inventory System. By not having such information documented in each memorandum, tracking and monitoring awarded contracts for compliance with the Facilities Manual’s prohibition of splitting a project into smaller units of work to avoid competitive bidding becomes problematic.

Recommendation: Management should ensure that specific project location information is contained in each project’s “Recommendation for Award” memorandum. By doing so, FM will strengthen its controls to detect avoidance of competitive bidding requirements.

Response: Concur. Management will include in its development of processes and procedures for informal bidding, the requirement to include the following specific project location information: building name and address, floor and room number, and any other project specific location information that is consistent with location information maintained in the Campus Space Inventory System. We expect to have this completed by August 1, 2015.

F. Cancelled Contract

One awarded contract A&AS reviewed indicated an active status within the CapSTAR system even though the project had been cancelled, based on discussion with FM personnel. Upon cancellation, the contract’s revised status is required to be changed within CapSTAR, as well as in other relevant supporting documentation and systems. Additionally, FM could not provide any supporting documentation to A&AS that validated that the contract had been cancelled with the contractor. Contracts that are not cancelled within CapSTAR on a timely basis

may increase the risk that payments could be made to vendors for goods and services not rendered to the University.

Recommendation: Management should ensure that when a contract is cancelled, the Capital Programs Contracts Administration unit is notified in writing on a timely basis. Additionally, project managers should maintain adequate supporting documentation for cancelled contracts within the related project file.

Response: Concur. Management will include in its development of processes and procedures for informal bidding, the requirement to submit project cancellation paperwork to Capital Programs Contract Administration on a timely basis and retain in the project file supporting documentation regarding why the project was canceled. We expect to have this completed by August 1, 2015.

G. University Correspondence Salutation

The completion notice, notice to proceed and other forms and correspondence utilize the salutation "Gentlemen" even though the addressee (awarded contractor) is a "Woman-Owned Business Enterprise." The awarded contractor for an item tested is a self-certified "Woman-Owned Business Enterprise" per Exhibit 6 of the University's Mini-Form contract. The completion notice, notice to proceed, and other correspondence letters sent by FM and Capital Programs on behalf of the University contained "Gentleman" as part of the salutation.

Recommendation: Management should coordinate with Capital Programs to ensure that the salutation used in forms and correspondence to awarded contractors is gender neutral.

Response: Contract related correspondence such as the Notice of Completion, Notice to Proceed etc. are generated by Capital Programs Contracts Administration. Management will notify Capital Programs Contracts Administration of the identified oversight and request that a gender neutral salutation is used when issuing such documents. We expect to have this completed by August 1, 2015.

Separation of Duties

Interviews were conducted with FM management and project managers, and Capital Programs management to obtain an overview of negotiated contracting functions and processes. Key processing activities within FM's project work flow were reviewed to determine if individual duties and processing functions are adequately separated to optimize internal controls. This included a review of the CapSTAR system's contract administration module and its utilization as related to FM projects. The Facilities Manual was referenced, as necessary, to assess conformance with published guidelines. Available supporting documentation from our test sample was evaluated for proper authorization.

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

Policies and Procedures

Written departmental procedures for administering and managing "under \$50,000 negotiated contracts" and "under \$50,000 informal competitive bidding contracts" were evaluated through interviews, observations, and document reviews. Distribution protocols for the established written procedures to appropriate personnel were also assessed.

A. Departmental Procedures

FM has not established written departmental procedures for administering "under \$50,000 negotiated contracting" and "under \$50,000 informal competitive bidding" contracting activities, including the creation, maintenance and retention of project files.

The Facilities Manual requires a project file to be created and maintained in order to store relevant documents during the life of the project. Documents required for retention in the project file include bidding documents, agreements, drawings,

notice to proceed, change orders, inspection acceptance, notice of completion, telephone conversation notes, correspondence, meeting minutes, project notes, photographs and digital images, and other pertinent documentation, as necessary. The Facilities Manual also requires that retention of project files be based on the UC Records Management's Records Retention Schedule.

UCLA Policy 360 requires periodic review of department operating procedures to ensure internal controls are being followed and improving on those controls when weaknesses are detected. The Policy also requires control activities, including but not limited to operating procedures, be identified and captured such that it enables management and staff to carry out their responsibilities efficiently and effectively.

Recommendation: Management should develop written departmental procedures for administering “under \$50,000 negotiated” and “under \$50,000 informal competitive bidding” contracting activities, including the creation, maintenance, stewardship and retention of supporting documentation within the required project files. These written procedures should be consistent across all FM divisions and distributed to all relevant project managers and other key staff.

Response: Concur. Management is currently reviewing the Facilities Manual to develop processes and will issue formal process and procedures for informal bidding and negotiated contract administration to all authorized personnel. Management expects to issue this by August 1, 2015.