CAPITAL PROGRAMS

PROJECT CLOSEOUT REVIEW

AUDIT REPORT #20-2103

Audit & Advisory Services

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Background

In accordance with the UCLA Campus fiscal year 2019-20 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and associated procedures established to facilitate and govern the Capital Project Closeout Process within the UCLA Capital Programs (CP) department.

*Capital Programs Overview*

The Capital Programs department 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. Capital Programs 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.

The Capital Programs department consists of the following two 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.

*Closeout Process – Overview*

Project closeout is an important, distinct phase of a construction project that requires its own management process. The process can be lengthy and challenging depending on a project’s size, complexity, duration, and physical environment. It is important because it facilitates project commissioning and ensures fulfillment of contractual and legal obligations before releasing final payment to the contractor. Administratively, a well-executed closeout process is one indicator that a given construction project was properly managed throughout its duration.

The closeout process is synchronized to, and driven by the construction contract and includes negotiating final change orders, completing punchlist items, release of final payment and retention to the general contractor, and maintaining builders risk insurance. It also includes obtaining required documentation such as Operating and Maintenance manuals for equipment systems, warranty information, and “as-built” drawings. Closeout accounting processes include reconciling and closing-out of project accounts and funds, finalizing project capitalization, and preparing and updating Capital Improvement Budgets (CIB) at selected project milestones. Process monitoring is performed by the Construction Site Manager, Project Manager, Financial Services, and Contracts & Records Management through ongoing meetings with the General Contractor; review of various project schedules and budget and expense reports; and effort coordination of the overall construction process with CP staff.

CP personnel prepare reports, schedules, reconciliations, and other relevant project closeout information using the following software applications: CapSTAR (Capital Projects Status, Tracking and Reporting), a relational database management system designed for the tracking and accounting of major capital improvement projects; SharePoint, a business collaboration software that manages content for search and sharing on intranet and internet sites; Expedition, a contract management and project administration application; Primavera, a project portfolio management application; and Microsoft Excel.

The closeout phase can be defined as the period from when the project owner can occupy the structure for its intended use and completion of all contractual requirements, to the point when the contractor receives final payment and release of retention. As a result, project closeout is a sequence of tasks performed at the end of construction that prepares the project for final acceptance by the owner.

The CP “Design and Construction Services” unit and “Capital Planning and Financial Services” unit include staff that specializes in design, engineering, construction, and management services as well as project development, financial, contract, and records management services. Each specialized area is overseen by a Director, and each group is controlled by an Associate Vice Chancellor.

Purpose and Scope

The primary purpose of the review was to ensure that Capital Programs organizational structure and controls surrounding project closeout processes are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following areas:

* Capital Improvement Budgets
* Tracking of Project Funding
* Project Reconciliations and Related Training

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests of records, 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, Capital Programs’ organizational structure and controls are generally conducive to accomplishing its business objectives related to project closeout processes. However, controls and business practices could be further strengthened by implementing the following:

*Capital Improvement Budgets – Required Filing*

* Management should ensure that post-project CIBs are submitted within 60 days of the filing of the Notice of Completion (NOC) for all capital improvement projects over $10 million per the University of California (UC) Facilities Manual.

*Substantial Completion CIBs*

* Management should establish and administer “Substantial Completion” CIB training. The training should assist staff in understanding their role in the process, and include ample reference materials of differing capital project scenarios covering for various conditions. Management should also ensure that the training is satisfactorily completed and documented for accountability purposes.

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

Audit Results and Recommendations

Capital Improvement Budgets

A&AS met with CP management to obtain an understanding of processes, controls, and data related to the preparation of CIBs, as well as the proper form, format and maintenance of such data. A review of relevant sections of the UC Facilities Manual was performed to gain a general understanding of CIB filing requirements.

Capital Improvement Budgets – Required Filing

Capital Programs management provided A&AS personnel with electronic capital project information from its CapSTAR system for closed-out CP projects from July 2017 to May 2020. A sample of eight closed-out CP projects over $10 million was selected from the data provided, and analyzed to ascertain whether CIBs are being submitted within 60 days of the filing date of the NOC. Of the eight projects tested, the following were identified:

* Five projects (63%) did not have their post-project CIB submitted within 60 days of filing of the related NOC.
* Two projects (25%) did not have an NOC and CIB date. Therefore, a conclusion could not be determined.

Per the UC Facilities Manual, Construction Services Capital Planning, Chapter 7.6.1, Post-Project CIBs for projects over $10 million should be submitted within 60 days of filing the NOC.

Recommendation: Management should ensure that Post-Project CIBs are submitted within 60 days of filing the NOC for all capital improvement projects over $10 million, and related data is recorded in the CapSTAR system on a timely basis. Doing so will promote conformance with UC Facilities Manual requirements, and strengthen data resources to assist management in their administration of capital improvement projects.

Response: Capital Programs records indicate that seven projects were closed-out during the designated July 2017 – May 2020 time period. These include the CHS South Tower, Wasserman Football Performance Center, Semel IPCN, Engineering VI Ph 1, Ostin Music Center, Telemedicine Phase 1, and Telemedicine Phase 2.

Telemedicine Phase 1 involved the procurement and installation of telecommunications equipment in several affiliated hospitals, clinics, and campus facilities. Additionally, the Telemedicine Phase 1 project included expenses related to UC Riverside and Drew University of Medicine and Science that UCLA was tasked with monitoring. Because the purpose of this account was to purchase and install equipment, there was no NOC associated with this project. Telemedicine Phase 2 included a construction project that had a NOC in January 2016. Significant State funds remained at the end of construction. A request was made to UCOP in May 2016 to reallocate these funds for additional equipment purchases. The post-construction CIB in 2017 reflected both the original project and subsequent additional equipment. These two projects had extensive documentation of project status reported to the State at all stages of development.

The remaining five projects all have a post-construction CIB that has been included as part of a related approval action. These documents are available under the Approval section of each project in our SharePoint archived project files. We will provide a scan of these relevant actions under separate cover.

It is important to note that the criteria used to select projects (those that have reached a close-out date) effectively eliminated consideration of more recent projects which have a NOC, but have not reached final project close-out. The NOC dates for the selected projects noted above ranged from August 2015 – April 2018. The last two years of project activity is not included in these results.

Project Budgets – Post Completion

Capital Projects management, including the Director of Project Management Services, Director of Construction Management Services, and selected project managers, provided A&AS staff with an overview of post completion closeout processes. This included review of various management reports utilized to track and monitor financial aspects of project closeouts, and key elements of post completion closeout budgetary activities. Questionnaires were completed by selected project managers to identify any major factors in project closeout delays, if any. A&AS determined that project budgets consider and allow for staff time used for enforcing contractor warranties, and that project closeout activities can proceed at the completion of construction.

There were no significant control weaknesses noted in this area.

Tracking of Project Funding

Discussions were held with CP management to strengthen our understanding of the tracking and handling of project funding relative to funding delays, client understanding of overall project expenses and funding sources, and gift fund service fees. Typical funding sources can include loans, grants, pledges, gifts, stand-by financing, etc. Project funding is administered utilizing an established methodology.

A. Substantial Completion CIBs

Management indicated that formal project manager training has not been developed for the newly-created capital project “Substantial Completion” Capital Improvement Budget process and procedure. Capital Programs management indicated that this process and procedure is “required.” UCLA Policy 360 requires evaluating staff training needs and for providing staff development. The policy also provides that pertinent information for such a control activity be identified, captured and communicated in a form and timeframe that enable staff to carry out their required responsibilities efficiently and effectively.

Recommendation: Management should establish and administer “Substantial Completion” Capital Improvement Budget training. The training should assist staff in understanding their role in the process, and be able to answer the following questions:

* What is the purpose of the “Substantial Completion” Capital Improvement

Budget and why is it performed?

* When does the procedure begin and end?
* What steps are followed to complete the procedure?

The training should include reference materials and samples of differing capital project scenarios to obtain adequate training coverage for various conditions. To administer the training, management should ensure that it is satisfactorily completed by current and future staff, as applicable, and documented for accountability purposes.

By establishing and providing such training, management will ensure the validity, accuracy, reliability and timeliness of its required “Substantial Completion” Capital Improvement Budget.

Response: To provide clarification to the process description made in Section A. There is no newly-created “Substantial Completion” Capital Improvement Budget (CIB) process and procedure.

The Project Budgets – Post Completion process identified in the last section accurately reflects the type of work conducted to develop a Post Completion CIB. Capital Programs project managers are very familiar with the process and closely coordinate with Capital Planning and Finance staff to develop the post-completion project documentation.

What is ‘newly created’, are some enhancements to the Capital Programs workflow processes which is now underway. These enhancements will allow for the development of more integrated workflows and an online CIB form that will be routed through DocuSign. This process will apply to all major projects, not just those with budgets greater than $10 million. The online format will enhance our future data collection capabilities, but it does not fundamentally change the current process, procedure or the responsibilities of current staff.

Utilizing the newly created digital enhancements will allow for the reporting of project completion more uniformly. Use of Substantial Completion as the milestone date, however, does not constitute a new process or procedure.

As with all enhancements to Capital Programs web-based tools, training is an integral part of the process and is conveyed through already established periodic training sessions facilitated by Capital Programs IT Services staff.

Project Reconciliations and Related Training

Meetings were held with the CP Assistant Director of Capital Planning and Finance to acquire information and an understanding of project manager practices utilized for the reconciliation process between the preliminary planning, working drawing, and construction (PWC) report, to the CIB and the Budget Tracking Report (BTR). Capital Programs management provided sample BTR and post-construction CIB documentation for illustrative purposes. These documents were reviewed to gain an understanding of the necessary workflow that links the data contained within the reports and determines how project costs are ultimately separated by the PWC project phase. Currently, default factors are initially used to calculate variances between a project’s approved budget and the current forecasted budget. These calculations are then reviewed by the assigned project manager to confirm the related CIB reconciles to the BTR and the PWC report. It should be noted that project managers have some limited discretion in categorizing project costs, but the UC Office of the President (UCOP) defines cost categories.

Based on the assessment performed described earlier, additional interviews were conducted with CP management to determine whether project manager training for the above-referenced reconciliation process has been established and is adequate. Management provided an overview of reconciliation control procedures currently being considered for and by associated stakeholders. These reconciliation procedures include, among other things and on a go-forward basis, requesting the CP Project Planning unit and project managers to initiate the PWC reconciliation process early in a project’s life cycle. However, the implementation of this new procedure may result in a catch-up period to address in-progress projects.

There were no significant control weaknesses noted in this area.

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