



Transmitted via e-mail

October 19, 2011

Mr. Mark G. Yudof, President
University of California, Office of the President
1111 Franklin Street, 12th Floor
Oakland, CA 94607-5200

Dear Mr. Yudof:

Final Report—Audit of University of California’s Proposition 1D Bond Funds

The Department of Finance, Office of State Audits and Evaluations, has completed its audit of the University of California’s (UC) oversight of Proposition 1D bond funds.

The enclosed report is for your information and use. UC’s response to the report finding is incorporated into this final report. UC agreed with our observation and we appreciate its willingness to implement corrective actions. The observation in our report is intended to assist management in improving its program. The report will be placed on our website.

We appreciate the assistance and cooperation of the UC staff. If you have any questions regarding this report, please contact Diana Antony, Manager, or Chikako Takagi-Galamba, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Ms. Sheryl Vacca, Senior Vice President, Chief Compliance and Audit Officer, University of California, Office of the President
Mr. Matthew Hicks, Systemwide Audit Director, Ethics, Compliance and Audit Services, University of California, Office of the President
Ms. Roshni Thomas, Executive Director, Budget and Capital Resources, University of California, Office of the President
Ms. Patricia Romero, Director, Capital Planning, Budget and Capital Resources, University of California, Office of the President
Ms. Colleen Connor, Coordinator of External Relations-State Capital Budget, Budget and Capital Resources, University of California, Office of the President

AN AUDIT OF BOND FUNDS

University of California Proposition 1D



Source: UC Irvine

Prepared By:
Office of State Audits and Evaluations
Department of Finance

MEMBERS OF THE TEAM

Diana Antony, CPA
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Final reports are available on our website at <http://www.dof.ca.gov>

You can contact our office at:

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EXECUTIVE SUMMARY

In accordance with the Department of Finance's bond oversight responsibilities, we audited the University of California's (UC) oversight of the Proposition 1D bond funds. Our audit objectives were to determine if (1) bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and (2) adequate reporting and monitoring processes are in place.

Overall, UC awarded bond funds in compliance with applicable legal requirements and established criteria. Additionally, UC has established several controls over state bond-funded projects, including:

- Policies and procedures are in place for project review prior to commitment of funds and for the UC Office of the President's (UCOP) approval of the prioritized project list.
- Campus controls and procedures are in place to ensure project budgets and goals are met.
- Campus project oversight responsibilities are communicated among planning, budgeting, project management, and end-user departments

To further build on these controls, UC's fiscal and administrative procedures could be improved in the following area:

- Report accurate and timely project status information to the bond accountability website, including a reference to completed project audit reports.

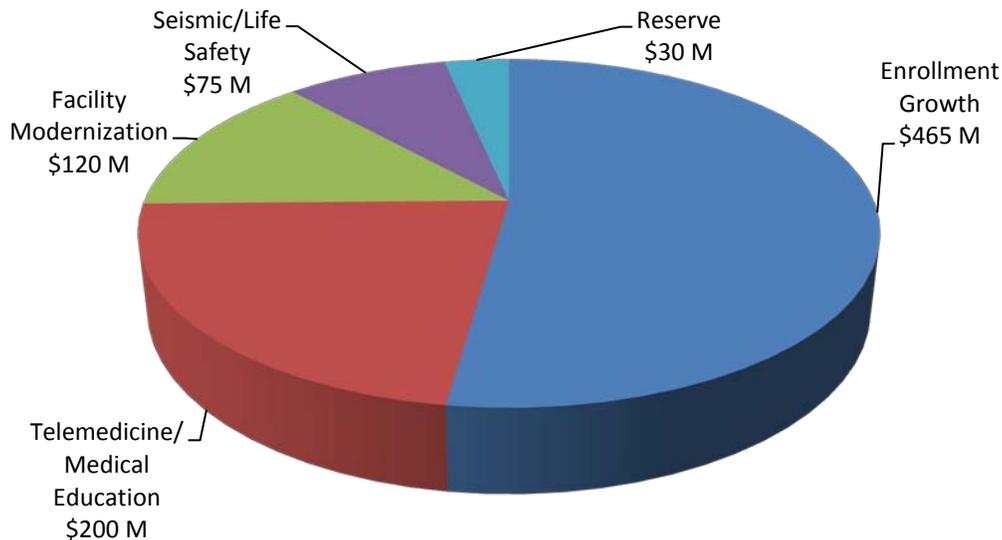
UC's accountability procedures and controls over bond funds could be strengthened if it develops a corrective action plan to address the observation and recommendation noted in this report.

BACKGROUND, SCOPE, AND METHODOLOGY

BACKGROUND

In November 2006, California voters passed Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006. The Act authorized bonds totaling \$10.416 billion for educational facilities for Kindergarten through 12th Grade Schools, California Community Colleges, California State University, and University of California. Proposition 1D provides the University of California (UC) \$890 million to construct and renovate facilities to meet the demands of its growing student population and to address seismic and life safety needs. Of the \$890 million, \$200 million is for facilities and state-of-the-art equipment to support the telemedicine program aimed at developing a high-tech approach to improve health care for underserved populations and communities.

Figure 1: Proposition 1D Distribution
(Figures in millions of dollars)



Source: Strategic Growth Plan Bond Accountability Website

University of California

The University of California (UC) system began in 1869 and by 2005 had expanded to ten campuses. UC's campuses are at Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. The UC system educates more than 220,000 students annually who are taught and supported by more than 170,000 faculty and staff.

The UC Board of Regents serves as the governing body for all campuses. The Regents operate independently subject to limited California legislative oversight. Generally, the campuses report to the UC Office of the President (UCOP), who then reports to the Regents. The UCOP and campuses work jointly to develop allocation plans for the bond funds taking into consideration campus needs and systemwide goals and priorities. The Strategic Growth Plan website reports UCOP has allocated 99 percent of the state bond funds, which support over 50 projects throughout the UC system.

The Capital Planning Unit at the UCOP serves as a central point of contact for the state, the campuses, other units within the UCOP, and the Regents on issues related to capital improvement projects. The campuses have primary responsibility for managing projects during construction and equipment phases. *(Source: University of California)*

SCOPE

In accordance with the Department of Finance's bond oversight responsibilities, we conducted an audit to determine whether Proposition 1D bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and to determine if UC had adequate project monitoring and reporting processes in place.

The audit did not include an assessment of the bond authorization, issuance, or sale processes. Our audit focused on determining if UC's fiscal and administrative oversight was adequate. Accordingly, we did not perform a comprehensive review of project expenditures.

METHODOLOGY

To determine whether bond funds were awarded and expended in compliance with applicable legal requirements and established criteria, and whether adequate monitoring processes were in place, we performed the following procedures:

- Reviewed the applicable legal provisions, bond acts and regulations, policies, procedures, and program guidelines.
- Interviewed management and key staff responsible for administering bond funds to obtain an understanding of how UC oversees the various project stages.
- Gained an understanding of the UC's audit services through interview of internal audit staff and review of relevant documents, including risk assessment methodology, annual audit plan, and audit activities.
- Reviewed the information reported on the Strategic Growth Plan Bond Accountability website.¹
- Reviewed the administrative costs charged to bond funds for reasonableness.
- Performed site visits of four selected campuses and conducted interviews of key campus staff responsible for project management and monitoring.
- Reviewed a sample of project files and accounting records

¹ Bond accountability website address is: www.bondaccountability.ca.gov

Recommendations were developed based on review of documentation made available to us and interviews with UC management and key staff directly responsible for administering bond funds. The audit was conducted in two phases—Phase I was conducted during April 2010 and May 2010 and Phase II was conducted during February 2011 through August 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with Governor's Executive Order S-02-07 (Executive Order) and previously established fiscal policies, the University of California (UC) has developed a three part bond accountability structure and several key controls over bond funds, including:

- Front-end accountability includes extensive five-year forecasting of facility requirements based on individual campus and systemwide goals. The planning and budgeting is coordinated at UC Office of the President (UCOP).
- The campuses have primary responsibility for in-progress monitoring during construction. Design and Construction Services Departments at each campus, in consultation with the UCOP, oversee project progress and perform post-project reviews to ensure project budgets and goals are met.
- Campus project oversight activities are communicated among planning, budgeting, project management, end-user departments, and with UCOP.

Governor's Executive Order S-02-07 Three-Part Bond Accountability Requirements

Front-End Accountability: Create a strategic plan with performance standards for projects prior to the expenditure of funds.

In-Progress Accountability: Document what ongoing actions it will take to ensure that the infrastructure projects or other activities funded from bond proceeds are staying within the scope and cost that were identified. Additionally, each department shall make semi-annual reports to the Department of Finance to ensure that the projects and activities funded from bond proceeds are being executed in a timely fashion and achieving their intended purposes.

Follow-Up Accountability: Audit completed projects to determine whether the expenditures were in line with the goals laid out in the strategic plan.

We identified the following area for improvement:

Observation 1: Improvements Needed to Meet Project Status Reporting Requirements

UC's project status reporting on the Strategic Growth Plan Bond Accountability Website (website) is not updated as required by the Executive Order. For instance, UC Irvine's Arts Building project indicated an estimated completion date of August 26, 2010; however, as of August 2011 there was no update or explanation for the delay. According to the UC's in-progress accountability posted on the website, the campuses are required to submit quarterly progress reports to UCOP for review and to help update the website. However, based on our campus visits we noted that campuses do not always report quarterly, and instead report annually. This, in part, causes a delay in updating the project status information on the website.

The Executive Order requires administering agencies to semi-annually report each project's status, including amounts expended, ongoing actions taken to ensure the project remains within cost and scope, and results of the completed project. More frequent project status reporting would allow UCOP to provide better in-progress project oversight and timely project status reporting to the public.

As of June 30, 2011, UC completed audits for 5 of 24 completed Proposition 1D projects. See Table 1 on following page. We encourage UC to continue conducting audits of state bond funded projects and to report the results of the completed audits on the website. Performing construction audits will minimize the risk of non compliance and increase fiscal accountability.

Recommendation:

- A. Report accurate and timely project status information to the bond accountability website, including a reference to completed audits.

Table 1: Completed Proposition 1D Funded Projects Through June 30, 2011*

| Campus | Project Name | 1D Appropriation | Phase(s) | Audit |
|---------------|--|----------------------|----------|-------|
| Berkeley | Durant Hall Renovation | \$9,970,000 | PWC | No |
| Irvine | Arts Building | \$42,523,000 | PWCE** | No |
| Irvine | Biological Science Unit 3 | \$3,268,000 | E | No |
| Irvine | Humanities Building | \$27,993,000 | PWCE** | No |
| Irvine | Social and Behavioral Sciences Building | \$37,582,000 | C | No |
| Irvine | Steinhaus Hall Seismic Improvements | \$9,681,000 | PWC | No |
| Irvine | Telemedicine/PRIME Latino Community Facilities | \$35,000,000 | PWCE | No |
| Los Angeles | Life Sciences Replacement Building | \$38,576,000 | C | No |
| LA/Drew | Life Sciences Research and Nursing Education Building | \$10,000,000 | PWC | No |
| Riverside | Student Academic Support Services Building | \$18,035,000 | C | Yes |
| Riverside | Culver Center for the Arts | \$8,065,000 | WC | Yes |
| Riverside | Geology Building Renovations Phase 2 | \$9,025,000 | PWC | Yes |
| Riverside | Materials Science and Engineering Building | \$4,620,000 | E | Yes |
| Riverside | Psychology Building | \$1,612,000 | E | No |
| San Diego | Mayer Hall Addition and Renovation | \$13,126,000 | C | No |
| San Diego | Chilled Water and Electrical Distribution Improvements | \$3,157,000 | WC | No |
| San Diego | Music Building | \$2,204,000 | E | No |
| San Diego | Telemedicine/PRIME Health Equity Education Facility | \$35,000,000 | PWCE | No |
| San Francisco | Medical Science Building Improvements Phase 2 | \$16,379,000 | C | No |
| Santa Barbara | Education and Social Science Building | \$27,206,000 | CE | No |
| Santa Barbara | Electrical Infrastructure Renewal Phase 2 | \$6,328,000 | C | No |
| Santa Barbara | Engineering II Life Safety Improvements and Addition | \$5,000,000 | WC | No |
| Santa Cruz | Digital Arts Facility | \$19,751,000 | C | No |
| Santa Cruz | McHenry Library Addition and Renovation | \$45,005,000 | WCE | Yes |
| TOTAL | | \$429,106,000 | | |

Source: University of California

Legend:

*Does not include complete procurement of equipment.

**State funding for equipment appropriated in 2010-11 or 2011-12.

P: Preliminary Plans
W: Working Drawings
C: Construction
E: Equipment



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October 7, 2011

Mr. David Botelho
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, California 95814

Dear Mr. Botelho:

Thank you for your letter of August 25 and for the opportunity to review and comment on the draft report for the audit of University of California's Proposition 1D bond funds. On behalf of the University of California, I want to express my appreciation for the cooperation and attention we received from your staff during this audit.

We note that the report contained one recommendation, and I am pleased to provide the University's response to this recommendation:

Observation 1: Improvement Needed to Meet Project Status Reporting Requirements

As proposed in the report, the University will undertake the following measures to provide accurate and timely information on project status:

- update the Bond Accountability website (<http://www.bondaccountability.uc.ca.gov/default.php>) semi-annually in December and June of each year, beginning with December 2011;
- resume quarterly progress reporting on capital projects that had been stalled; and
- include a reference to completed audits on the bond accountability website.

Mr. David Botelho

October 7, 2011

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If you have any questions related to this response, Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca would be pleased to speak with you. She can be reached by telephone at (510) 987-9090, or by email at Sheryl.Vacca@ucop.edu.

With best wishes, I am,

Sincerely yours,

Original signed by:

Mark G. Yudof
President

cc: Executive Vice President Nathan Brostrom
Senior Vice President and Chief Compliance and Audit Officer Sheryl Vacca
Vice President Patrick Lenz
Associate Vice President Deborah Wylie
Executive Director Roshni Thomas