FACILITIES MANAGEMENT

FINANCE, SPACE, AND LOGISTICS DIVISION

PURCHASING PROCESS REVIEW

AUDIT REPORT #23-2004

Audit & Advisory Services

June 2023

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Background

Facilities Management (FM), a subdivision and department within the UCLA Administration organization, provides a wide range of services including the maintenance and renovation of buildings, grounds, and utility infrastructure of the Campus and Medical Enterprise. FM ensures an environment conducive to the educational mission of the University by supplying reliable power, state of the art classrooms and research facilities, and environmentally responsible business practices.

Materiel Management personnel coordinate the procurement of materials and equipment for the various internal FM units, and functions as a liaison with the Campus Purchasing and Accounts Payable (AP) departments. Authorized staff utilize the department’s Maximo system to initiate purchase requisitions. Working through an interface that connects Maximo with the University’s BruinBuy procurement system, Materiel Management purchased approximately $38 million in goods and services during fiscal year 2020-21.

Purpose and Scope

The purpose of the review was to ensure that Materiel Management’s internal controls related to the purchasing process are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University policies and procedures was also reviewed.

The scope of the audit focused on the following activities:

* Purchasing Process
* Receiving
* Returns
* Physical Security

The audit 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 results of the work performed within the scope of the audit, FM’s internal controls are generally conducive to accomplishing its business objectives related to purchasing activities. However, internal controls and certain business practices could be further strengthened by implementing the following:

*Purchasing Process*

* Management should ensure that buyers are aware of and comply with the delegated LVO limit of $25,000 per vendor per account per day. Any orders to the same vendor exceeding a total of $25,000 should be referred to Campus Purchasing. Additionally, Management should ensure expenditures processed as LVOs are allowable and do not conflict with existing University agreements.
* Management should ensure that buyers are aware of and utilize existing purchasing agreements prior to submitting BruinBuy orders so that the University benefits from best pricing and delivery terms that have been integrated into the agreements.
* Management should ensure that employees create orders in BruinBuy at the time of purchase commitment and prior to the event taking place or the service being provided, using an estimate or quote from a vendor, where necessary. BruinBuy orders should not be created after an event has occurred or service has been provided. Also, management should consider performing periodic spot checks of purchase transactions to ensure that orders are created at the time of commitment. By providing additional training to staff, as needed, the University’s interests will be better protected through the use of established terms and conditions, vendors being paid more timely, and more accurate budgeting data created.

*Receiving*

* Management should require that all employees who receive items record their review of the quantity and type of items being received by clearly signing their initials and the date of review on relevant documentation. Thoroughly documenting the receipt of goods increases accountability and facilitates more efficient follow-up whenever questions arise because the specific staff member involved is easily identified.
* Management should implement a system for regularly reconciling goods received with corresponding invoices to ensure proper ownership and timely payment to vendors in coordination with Facilities Management Accounts Payable and/or UCLA Business & Finance Solutions Purchasing & AP. This could include assigning a designated individual or team to review and approve all goods received and corresponding invoices before payment is made, and conducting audits of the reconciliation process to identify and resolve any discrepancies in a timely manner.

*Returns*

* Management should implement a system for regularly reconciling goods returned with corresponding credit invoices to ensure credit transactions are accurately captured within BruinBuy. This could include assigning a designated individual or team to review goods returned for credit against corresponding credit invoices before payment is made, and conducting audits of the reconciliation process to identify and address any discrepancies in a timely manner.
* Management should ensure that employees are reminded to completely fill out the "Returned Goods and Pick-Up Memo" and be reminded of the originator and return reason options. Doing so will help ensure that originating parties are identified and return reasons are accurate which will allow timely posting into Maximo.

*Physical Security*

* Management should develop and implement a policy and procedure to ensure purchased items are retrieved from receiving storage areas in a timely manner. By requiring items to be picked up more promptly, additional space will be available to accommodate future purchases, and the risk of possible theft or damage to newly-purchased items on hand may be reduced.

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

Audit Results and Recommendations

| **#** | **OBSERVATION and CRITERIA, where applicable** | **RECOMMENDATION** | **MANAGEMENT’S RESPONSE** |
| --- | --- | --- | --- |
| **PURCHASING PROCESS** |
| Audit work included the following:Low-Value Orders* A&AS obtained Purchasing and Accounts Payable Query Database information from fiscal year 2020-21 for analysis to verify whether there were any LVOs executed above the $25,000 per vendor per account per day limit delegated to FM by Campus Purchasing.
* A judgmental sample of five vendors with LVO transactions was selected for testing. The total number of orders for each vendor per date was counted. Transactions were reviewed for each vendor and date to verify whether any LVOs exceeded the $25,000 per vendor per account per day limit. For those LVOs identified as being over the limit, A&AS reviewed the transaction details to determine whether it appeared that those LVOs were split to enable individual parts of an otherwise single transaction to remain below the delegated LVO limit.

“After-the-Fact” Purchases* A&AS exported purchasing data into Microsoft Excel to determine whether purchase orders are properly created in BruinBuy at the time of commitment and prior to the event taking place or the service being provided.
* Using the same sample of five vendors with the largest balances of aggregate invoices during fiscal year 2020-21, A&AS analyzed purchase transactions from the sample to determine whether any items processed as “N” order class (LVO) were from vendors that had existing purchase agreements in place. For vendors with existing agreements established, audit testing was conducted to determine whether the sample transactions should have been more appropriately submitted as "A" class orders (Blanket Orders and Release Orders).

 Competitive Bidding* Fiscal year 2020-21 purchasing data was analyzed to verify whether purchases exceeding the $100,000 threshold were competitively bid, as required in UC Policy BUS-43, Purchase of Goods and Services, Supply Chain Management, Part I.B. A sample of two transactions exceeding $100,000 from two different vendors was selected for testing excluding those from vendors related to purchased utilities, contract purchases, professional services, and other recurring transaction types. .

Duplicate Invoices* A&AS utilized TeamMate Data Analytics’ “Extract” function to identify possible duplicate payments processed during fiscal year 2020-21. Additional audit work performed included extraction of purchase expenditures based on vendor, invoice date, and invoice gross amount. Based on TeamMate Data Analytics, 966 expenditures were identified and extracted. The total amount of the 966 expenditures was $613,677, and the average expenditure amount was $635.
* A judgmental sample of 10 potential duplicate entries was selected for review from three vendors based on the largest total of gross order amounts. BruinBuy data and related invoices were reviewed for each of the expenditures selected for audit testing.

Personal Purchases* A&AS created a keyword list of 240 higher risk vendor names and items to determine whether there were any items that appeared to be personal purchases made with University funds during fiscal year 2020-21. TeamMate Data Analytics was used to cross match over 41,000 lines of purchase activity information with any word(s) from the keyword list. Based on this cross matching, 172 expense line items were identified and extracted as having at least one word or phrase from the keyword list. The total amount of the 172 line items was $92,782, and the average cost of each of the 172 line items was $539, varying from $2.00 to $8,920. The purchase transaction line descriptions for each of the results were manually reviewed for reasonableness. From the 172 line items that matched words or phrases from the keyword list, A&AS selected a sample of 10 line items for further review. Invoices and available supporting documentation for the 10 sample items were reviewed to identify any potential personal purchases.

Employee Address Match* A&AS obtained purchasing data for the four-year period of fiscal years 2017-18 through 2020-21 from the Purchasing and Accounts Payable Query Data Base and filtered the data in Microsoft Access by FM department codes. The purchasing data was extracted and analyzed to determine whether there were any indications of potential fraud occurring from the period of the prior audit in fiscal year 2016-17 to the current audit period in fiscal year 2020-21. Data from the invoice and vendor tables were linked and then exported to Microsoft Excel for analysis. A&AS used TeamMate Data Analytics’ “Manipulate Fields” function to normalize the fields and remove any spaces and characters after the first five digits of the zip code, and characters within vendor phone numbers to avoid potential format or matching errors. We also verified whether delivery addresses and phone numbers could be cross matched.

Issues noted are summarized below. |
| 1 | Low-Value Orders (LVOs)Five vendors had LVOs that exceeded the delegated $25,000 per vendor per account per day restriction. The number of LVOs per vendor per day were related to two orders. In addition, one vendor was identified with two transactions processed as BruinBuy 'N' order class codes instead of the more appropriate 'A' order class codes because an active UCLA purchasing agreement existed.A&AS noted that the Low-Value Order delegated amount for Facilities Management was increased from the standard $5,000 per vendor, per account, per day for goods and services to $25,000, effective September 2012 by the then UCLA Campus Purchasing Director. The delegation is currently active and is reviewed and approved annually by the UCLA Campus Purchasing Chief Procurement Officer (CPO). The effect of using LVOs in this manner bypasses internal controls over higher dollar transactions which typically receive additional review prior to their approval.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UCLA Policy 741 Low-Value Purchases, "Low-Value Purchases (LVO) consists of supplies and services that do not exceed a cost of $5,000 per Vendor, per day, per account-code, excluding transportation costs and excluding sales and/or use tax." Additionally, "Low-Value Authorization (LVO Authorization) is a limited purchasing authority delegated to operating units for the purchase of supplies or services that are not available from established agreements or campus service units." | Management should ensure that buyers are aware of and comply with the delegated LVO limit of $25,000 per vendor per account per day. Any orders to the same vendor exceeding a total of $25,000 should be referred to Campus Purchasing. Additionally, Management should ensure expenditures processed as LVOs are allowable and do not conflict with existing University agreements. | Facilities Management concurs and our policy is to follow Campus Purchasing guidance and controls for issuing purchase orders. All personnel generating purchase orders will be adequately trained on the importance of complying with the delegated LVO limit of $25,000 per vendor, per account, per day and the use of existing University agreements. Training will be completed by August 2023. |
| 2 | BruinBuy Order Class CodesNineteen transactions were processed as “N” class orders (LVOs) from vendors that had established purchase agreements in place. The following table shows a summary of the transactions processed as “N” class orders from vendors with existing purchase agreements.

|  |  |  |
| --- | --- | --- |
| **Vendor** | **# of Transactions** | **BruinBuy****Order Class**  |
| Animal & Insect Pest Management Inc.  | 1 | N |
| Aramark Uniform & Career Apparel Inc. | 18 | N |

UCLA enters into a variety of vendor and strategic sourcing agreements that are intended to provide goods and services at the best overall value, and to protect the University by applying appropriate terms and conditions for the purchase. By not submitting orders to BruinBuy using the most appropriate order class, FM may not receive the best pricing and most favorable terms and conditions.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:UCLA Policy 741, Low-Value Purchases, Part B.1, “The appropriate time to issue an LVO is at the time of commitment to the vendor. LVOs may not be issued to pay invoices after-the-fact for goods or services already received. University terms and conditions should be presented to the vendor when the order is placed, or else the vendor’s terms and conditions may govern the transaction. Vendor terms and conditions may violate UC policies, may not provide the required protection, or may have onerous business terms.” | Management should ensure that buyers are aware of and utilize existing purchase agreements prior to submitting BruinBuy orders so that the University benefits from best pricing and delivery terms. | Facilities Management concurs and it is our policy to utilize established University agreements. Management will reemphasize with buyers the need to apply existing purchase agreements prior to submitting orders to BruinBuy no later than August 2023. |
| 3 | BruinBuy Input DelayA total of 117 transactions were created in BruinBuy after an event had occurred or goods and services were provided. The number of days elapsed between the order and invoice dates ranged from 3 to 161 calendar days. The following table shows a summary of transactions created in BruinBuy after an event had occurred or goods and services were provided:

|  |  |  |
| --- | --- | --- |
| **Vendor** | **Number of Transactions** | **Elapsed Days****(Calendar Days)** |
| Animal & Insect Pest Management Inc.  | 1 | 25 |
| Aramark Uniform & Career Apparel Inc. | 18 | 10 to 13 |
| J Harris Industrial Water Treatment Inc.  | 98 | \*\*3 to 161 |

In the case of one vendor, shown below, a large percentage of delays were quite lengthy (more than three weeks): \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Criteria:Per UCLA Campus Purchasing procedures, the department should have created the order prior to the event taking place and at the time of commitment using an estimate or quote from the vendor. This delay in posting the BruinBuy transaction also creates a potential financial issue because an encumbrance was not placed on the funds, which could result in inaccurate budgeting decisions being made by management. By issuing the purchase order at the time of commitment and prior to the event taking place, the University’s established terms and conditions are provided to the vendor prior to the transaction taking place, which serves to safeguard the University’s interests by ensuring clarity that UC’s terms will govern the transactions.  | Management should ensure that employees create orders in BruinBuy at the time of purchase commitment and prior to an event taking place or the service being provided, using an estimate or quote from the vendor, where applicable. BruinBuy orders should not be created after the event has occurred or service has been provided. Also, management should consider performing periodic spot checks of purchase transactions to ensure that orders are created at the time of commitment. By providing additional training to staff, as needed, the University’s interests will be better protected through the use of established terms and conditions, vendors being paid more timely, and more accurate budgeting data created. | We will maintain our current process for ordering from strategic vendors with whom we have long-term agreements. Invoicing for these vendors occurs only after the work is completed, as in the case of Pest Management, Aramark Uniform, and Water Treatment. Because we cannot predict the exact amount of the invoice before the work is completed, we cannot issue a purchase order beforehand. Therefore, we will continue to process orders for these vendors in the same manner.Regarding other ATF purchases, our Facilities Management team will provide regular training updates during our monthly leadership meetings, first one in July 2023. We will also generate monthly reports to review ATF orders, which will be shared with the XO and AVC by January 2024. |
| **RECEIVING** |
| Audit work included the following:* A&AS performed audit test work to verify whether invoices were paid for items received by comparing a listing of invoices paid and a Maximo receiving report to verify that items were received.
* Obtained FM Receiving "Receipts" Listing for fiscal year 2020-21. A&AS noted a total of 33,841 purchase orders for goods received and services rendered during fiscal year 2020-21. The count of purchase orders does not reflect the number of unique individual purchase orders (i.e., duplicate purchase orders were present) as the listing is generated based on individual line items within a particular purchase order. The aggregate dollar amount of all received purchase order line items for FY20-21 was $46.3M. Receipts are entered into Maximo and the receipts listing contains all receipt transactions entered into Maximo for the period of July 1, 2020 to June 30, 2021. The packing slip numbers are included in Maximo receiving transactions because they provide confirmation that items were reconciled against purchasing documentation.
* Obtained FM Invoices Paid Listing for fiscal year 2020-21. A&AS noted a total of 17,723 invoices were paid for goods received and services rendered for fiscal year 2020-21. The aggregate dollar amount of gross invoices paid was $100.2M, and the aggregate dollar amount of purchase orders paid was $98.6M. The difference between the aggregate dollar amount of receipts of goods compared with invoices/POs paid is because of payment of outstanding invoices from outside of fiscal year 2020-21, adjustments, cancellations, backorders, etc.
* Utilized Microsoft Excel's "V-LOOKUP" formula to perform a match of goods received/services rendered against invoices paid on a per purchase order number basis. A total of 1,563 purchase orders were identified as having been received without a related paid invoice. The results were then filtered to display purchase orders with no associated invoices paid from largest amount to smallest amount based on line cost data.
* Twenty purchase orders were selected as a sample for audit testing. For each purchase order, packing slips for received goods were inspected for evidence of quantity and quality review by examining supporting documentation and whether items were accurately entered into Maximo as received. BruinBuy purchasing data and vendor invoices were inspected to ensure accuracy of transactions, including proper ownership of goods ordered and received.
* Lastly, audit work included reconciling buyer and receiver purchasing data to evaluate proper internal controls over segregation of duties.

Issues noted are summarized below. |
| 4 | Packing Slip Verification DocumentationAlthough all 20 packing slips reviewed included an “ENTERED IN MAXIMO” stamp, and item information appeared to be entered accurately as received in Maximo, 16 packing slips showed no evidence that staff reviewed the quantity of items received and whether the quantity was accurate. Without adequate documentation that staff reviewed the quantity received, it is not clear whether receiving procedures were properly performed and by whom. | Management should require that all employees who receive items record their review of the quantity and type of items being received by clearly signing their initials and the date of review on relevant documentation. Thoroughly documenting the receipt of goods increases accountability and facilitates more efficient follow-up whenever questions arise because the specific staff member involved is easily identified. | The Facilities Management MM department will utilize Maximo as its record-keeping system. Maximo will keep track of all received goods, including quantity, type, and the staff member responsible for checking them in. The system ensures goods and receivables are properly accounted for and prevents any changes to the logged information. This eliminates the need for paper documentation and double processing. Any receiving issues, changes, or notations should be submitted to Maximo for record keeping. The use of pen and paper for notations or signature acknowledgments by receiving staff will be discouraged.We will create a training guide and standard operating procedure (SOP) to make sure that everyone understands what is expected of them and that they receive proper training to receive by November 2023. |
| 5 | Goods Received Not InvoicedOne purchase order dated February 17, 2021 did not have a related invoice as of the date audit testing procedures were conducted. Additionally, no payment had been processed for the purchase order. As a result, proper transfer of ownership of goods received from the vendor to the University was not completed. Upon notification by A&AS, Management corrected the issue. An invoice with a date of December 9, 2022, was provided to Audit & Advisory Services which is approximately 665 days after the original purchase order date. Invoice payment was processed on December 15, 2022. Management stated that the oversight was because the FM Accounts Payable and UCLA Business & Finance Solutions Purchasing & AP units did not receive the invoice to process for payment. Furthermore, the purchase order was not flagged or identified for follow up before audit testing procedures were performed.  | Management should implement a system for regularly reconciling goods received with corresponding invoices to ensure proper ownership and timely payment to vendors in coordination with Facilities Management Accounts Payable and/or UCLA Business & Finance Solutions Purchasing & AP. This could include assigning a designated individual or team to review and approve all goods received and corresponding invoices before payment is made, and conducting audits of the reconciliation process to identify and resolve any discrepancies in a timely manner. | To guarantee the precise record-keeping of items received without invoices, a thorough feasibility study will be carried out. The FM Accounts Payable team will identify the systems, reports, and procedures required to authenticate non-invoiced receivables, allocate appropriate ownership, and ensure prompt payments to vendors by January 2024. |
| **RETURNS** |
| Audit work included the following: * A&AS performed audit test work to verify whether return credits were properly received by comparing a listing of items returned generated from Maximo to Purchasing & Accounts Payable data.
* Obtained FM Returns Listing for fiscal year 2020-21. A total 355 purchase orders were returned. Some purchase orders showed that only a portion of their items were returned; while other purchase orders showed that all items within the transaction were returned. A&AS reconciled the listing and filtered out line items which were out of scope (i.e., creation dates outside of FY 2020-21). For sample selection purposes, 17 line items were removed from the population before audit testing was performed, which yielded a net population total of 338 purchase orders.
* Twenty purchase orders were sampled for testing. For each purchase order, a “Return Goods & Pick-Up Memo” and Maximo purchasing screenshot were inspected for completeness, including a reason for return, and that returned items were picked up from FM storage areas. BruinBuy purchasing data and vendor packing slips were inspected to ensure purchase credit for applicable returned items was captured within BruinBuy.

Issues noted are summarized below.  |
| 6 | No Return Credit BruinBuyTwo purchase orders associated with returns dated January 19, 2021, and March 24, 2021, did not have a related credit applied within BruinBuy as of the date audit testing procedures were performed.PO #3425AYA475: Purchased items were returned to the vendor on February 21, 2021, and payment for the invoice was processed on February 21, 2021. Upon notification of a missing credit, Management obtained a credit invoice. A credit invoice with a date of February 23, 2023, was provided to A&AS for review which is approximately 766 days after the original purchase order date. PO 3415NYF391: Purchased items were returned to the vendor on April 14, 2021, and payment for the invoice was processed on April 22, 2021. Upon notification of a missing credit, Management obtained a credit invoice. A credit invoice with a date of February 14, 2023, was provided to A&AS for review, which is approximately 693 days after the original purchase order date.Although a credit for each of the two purchase orders noted earlier was obtained after A&AS notified Management, BruinBuy records did not reflect a credit for the returned goods. When asked about this situation, Management indicated that they did not know why a credit for the returns was not reflected within BruinBuy. Further, A&AS was directed to follow up with UCLA Campus Accounting to ascertain the reason. Our review did not identify any flag or follow up notation from FM personnel related to the credit for returned goods before audit testing procedures were performed.  | Management should implement a system for regularly reconciling goods returned with corresponding credit invoices to ensure credit transactions are accurately captured within BruinBuy. This could include assigning a designated individual or team to review goods returned for credit against corresponding credit invoices before payment is made, and conducting audits of the reconciliation process to identify and address any discrepancies in a timely manner. | As a recommendation, we should evaluate the credit/return status in Maximo and find ways to reconcile it with Bruin Buy status (Jaggaer) through an automated interface. Until the Jaggaer implementation (December 2023), we will develop a report to review Maximo credit/return memos and manually reconcile them with Bruin Buy by November 2023. |
| 7 | Return Goods & Pick-Up Memo CompletenessFor 14 out of 20 returns reviewed, the "Returned Goods and Pick-Up Memo" was not fully completed. The 14 credit memos identified did not include an originating party, which is utilized to determine which department or facility is initiating the return. Additionally, one credit memo did not include a reason for the return. According to the department's "Return Process" procedures, any individual who picks up a return is expected to complete the "Returned Goods and Pick-up Memo" so that the receiving clerk can update pertinent return information within the Maximo system. Without an originating party identified or reason noted for the return, applicable return information cannot be entered into Maximo timely. Return documentation will first need to be researched to identify the originating party and/or return reason before Maximo can be updated. | Management should ensure that employees are reminded to completely fill out the "Returned Goods and Pick-Up Memo" and be reminded of the originator and return reason options. Doing so will help ensure that originating parties are identified and return reasons are accurate which will allow timely posting into Maximo. | Facilities Management concurs. Documentation detailing the proper information required to complete a “Returned Goods and Pick-Up Memo” will be written and distributed to all buyers and receiving personnel by August 2023. |
| **PHYSICAL SECURITY OF RECEIVED SUPPLIES** |
| Audit work included the following:* Obtained and reviewed a FM Remote Pickup Location map and conducted follow-up inquiries as needed. For each location, including Receiving Door #5, A&AS reviewed security camera footage screen capture images to verify whether security cameras are in place, functioning properly, monitored by management, and are not obscured in any way.
* Obtained FM “Receiving/Shipping & Returns Operating Procedures” to determine whether there were adequate policies and/or procedures to ensure timely pick-up of received items from Materiel Management storage areas. Follow-up inquiries were conducted, as needed.

Issues noted are summarized below.  |
| 8 | Timely Pickup of Stored ItemsItems purchased through Materiel Management and shipped to FM receiving areas are not always picked up timely by the requesting parties or their designees. Upon inquiry, A&AS determined that purchased items, once received, can take from minutes to weeks to be picked up, depending on the particular skilled crafts shop involved, the stage of the project they are working on, or if the shop is coordinating with another unit on a project. Presumably, the purchased items were needed for a particular job, approved for purchase, and were either charged to a particular project or were ordered to re-stock a trade shop or other unit. Because not all items are picked up in a timely manner, storage areas may become overstocked, which may increase the risk of damage to the stored items; theft without timely detection; and the department may have to needlessly allocate additional resources to locate the requesting parties rather than focusing on their core responsibilities. The "Receiving/Shipping & Returns Operating Procedures" could be further improved by including guidance related to timely pickup of received items. The procedures should address at least the following: defining preferred pick up time frames, time thresholds for triggering investigation into pick up delays, follow-up procedures, a tracking mechanism for items not picked up within defined timeframes, and language relating to how items are classified as resolved.  | Management should develop and implement a policy and procedure to ensure purchased items are retrieved from receiving storage areas in a timely manner. By requiring items to be picked up more promptly, additional space will be available to accommodate future purchases, and the risk of possible theft or damage to newly-purchased items on hand may be reduced. | Facilities Management concurs and is currently reviewing Materiel Management Receiving SOP to determine if updates to the notification process, retention and disposition durations, and supporting Maximo system need to be performed, including returns, credit memos, and restocking fee. This review should be completed by July 31, 2023. |

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