##### FACILITIES MANAGEMENT

##### DESIGN, PROJECT MANAGEMENT & OPERATIONS

##### GENERAL OPERATIONS REVIEW

AUDIT REPORT #16-2002

##### Audit & Advisory Services September 2016

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# Background

In accordance with the UCLA Administration fiscal year 2015-16 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls and procedures over selected business operations within the Design, Project Management & Operations (DPMO) division of the Facilities Management (FM) department. DPMO is responsible for project design, oversight of bidding and award processes performed by Contracts Administration and Project Management for construction projects that are estimated to cost between $50,000 and $3 million, and for other construction projects in excess of $3 million when delegated authority by the Chancellor. DPMO also manages projects on a cost plus fee basis, with a management fee that is typically 4% to 7% of construction costs. During fiscal year 2014-15, the DPMO division closed over 398 projects with total project costs of approximately $31.3 million.

## Purpose and Scope

The primary purpose of the audit was to evaluate the adequacy of internal controls surrounding key business operations. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit included the following activities:

* Succession Planning
* Budget and Financial Management Processes
* Information Systems
* Departmental Non-Inventorial Theft-Sensitive Equipment

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, DPMO’s internal controls and related procedures are generally adequate and effective to help accomplish their business objectives. However, management could further strengthen controls and improve efficiency of operations by implementing the following:

* Ensure that “personal identifying information” (PII) currently maintained in departmental staff files is destroyed in a timely and secure manner when not needed.
* Strengthen and monitor controls to safeguard non-inventorial theft-sensitive equipment.

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

Audit Results and Recommendations

Succession Planning

Interviews were conducted with the DPMO management, including the division Director and Administrative Officer, to evaluate the extent to which a succession plan and training for key career positions has been established. Having such a plan in place would enable DPMO to sustain operations when key employees retire or otherwise separate from the division. A&AS reviewed the years of service and expected retirement dates of career employees within the DPMO units of project management, architects, utilities, and grounds. DPMO’s business continuity planning and employee development strategy for each unit was reviewed and assessed for adequacy.

Based on the worked performed, A&AS found that DPMO management has analyzed expected employee retirement dates based on age and years of service, and has developed an action plan for each division within DPMO. Various elements within the action plan include positioning employees to fill positions as staff retire, hiring skilled supervisory positions from outside the university as needed, implementing a “shadowing program” with selected supervisors, and developing new senior level positions for ”grooming purposes.”

There were no significant control weaknesses noted in this area.

Budget and Financial Management Processes – Check Requests

A check request can take the form of an electronic transfer of funds (EFT) or a hard copy physical check and is requested to reimburse an employee or to pay a vendor.

A judgmental sample of 10 check requests was selected from DPMO’s check logs for audit review. Check request supporting documentation was reviewed for adequacy, completeness, valid payee, appropriate justification, and authorized approval. Check handling procedures were evaluated to ensure proper safeguarding of checks and compliance with UC Business and Finance Bulletin BUS-49, “Policy for Cash and Cash Equivalents Received” (BUS-49).

Test work indicated when a physical check is requested, the designated FM mailroom staff pick-up the checks from Campus Accounts Payable. The checks are in the same form and format as the employee payroll Surepay statements. The Surepay statements are a business form check-stock where the ends are sealed with a tear-off perforation. Once the tear-off perforations are removed, the check is part of the “z folded” stock printed with the usual check information, etc.

The FM mailroom staff delivers (same day) the checks directly to DPMO administrative assistants. The checks are opened by the administrative assistants to match the information on the check against what was recorded on the check request. Checks are then mailed (same day) to vendors or picked-up by the employee (if a reimbursement). While awaiting pick-up by the employee, the checks are maintained in the administrative assistants’ locked desk drawer. In most cases, employee reimbursements are deposited directly into the employee’s bank account.

Review of all 10 check requests indicated they were appropriate business expenses and properly approved. In addition, checks requested were adequately safeguarded and check handling procedures were found to be in compliance with BUS-49.

There were no significant control weaknesses noted in this area.

Budget and Financial Management Processes – Budgeting

A&AS met with DPMO management to learn about its annual budgeting process, the time frame and division staff involved, and related departmental responsibilities. Departmental procedures for monitoring, explaining and communicating budget variances were evaluated for adequacy and conformance with University financial policy. Monthly budgetary information, including budget-to-actual variances, was examined for reasonableness on a sample basis. Selections were based on the DPMO division revenue source, and expense categories.

DPMO management’s role in the development of its annual budget includes estimating its employee headcount, and providing information of any known conditions that should be considered in the budget preparation. The FM Finance & Information Systems unit owns and controls the entire budgeting process for all of FM, which includes DPMO. Monthly budget meetings are conducted among FM personnel, and significant variances, if any, are verbally discussed by the FM team. The Administrative Vice Chancellor’s Office, in coordination with the FM Finance & Information Systems unit, is responsible for responding to questions from the Office of Academic Planning & Budget regarding any significant budget variances.

There were no significant control weaknesses noted in this area.

Information Systems – Personally Identifiable Information (PII)

DPMO management personnel and staff from FM’s Finance & Information Systems unit were interviewed to identify and understand the various types of automated systems and applications being utilized by DPMO, including hardware attributes, software application business functions, database management systems and interfaces, etc.

Additional interviews with DPMO management and staff were conducted to determine the types of personally identifiable information (PII) being processed, stored and transmitted by DPMO, if any. A&AS performed audit verification procedures to evaluate whether any PII accessed or maintained by DPMO is adequately safeguarded, used in a manner consistent with the purpose for which it is intended, and is necessary to perform the job duties as assigned. Compliance with UC Policy BFB-RMP-1, “University Records Management Program” (BFB-RMP-1), and UCLA Policy 313, “Prevention of Identity Theft” (Policy 313), was also evaluated.

1. Personally Identifiable Information (PII)

Screen shots from the Campus MyHR system which contains employee PII, such as employee name, address, date-of-birth, social security number, driver’s license number, telephone number, etc., are currently being stored with new hire worksheets in a locked cabinet located in a common area of the DPMO office. Discussions with DPMO staff indicated there is little or no legitimate business purpose for maintaining this information once it has been entered into the MyHR system.

UC Policy BFB-RMP-1 requires that University administrative records are appropriately managed regardless of their form and format. Additionally, UCLA Policy 313 defines PII as any name or number that may be used, alone or in conjunction with any other information, to identify a specific person, including name, social security number, date of birth, official State or government issued driver’s license or identification number, etc.

By maintaining PII for over 200 DPMO employees in a common area within DPMO, management may not be able to detect, prevent, and/or minimize the risk of unauthorized access to such information. Should the PII being retained by DPMO be compromised, the University would likely be held liable for such a breach.

Recommendation: Management should require that all hard copies of MyHR screen shots, new hire worksheets, and other similar administrative records that contain PII that are being maintained in a common area within DPMO be destroyed in a timely and secure manner, such as by shredding the documents when not needed. By doing so, management would be adhering to sound business practices and minimizing the risk to its employees of unauthorized PII disclosure and/or identity theft.

Response: DPMO is responsible for entering the basic new hire information into the HR system.  All Personally Identifiable Information will be entered by the new hire into the UC At Your Service website.  Copies of relevant employment information will be retained by the HRPC South in personnel files, and copies of employment records will no longer be kept by DPMO in their files.

Departmental Non-Inventorial Theft Sensitive Equipment

Meetings were held with DPMO management and staff to determine departmental tracking and monitoring controls for its non-inventorial theft-sensitive equipment. Observations were performed to evaluate the physical storage and security over the non-inventorial theft-sensitive equipment, as well as controls over its issuance and return. Compliance with UC Business and Finance Bulletin BUS-29, “Management and Control of University Equipment” (BUS-29), was also assessed.

1. Non-Inventorial Theft sensitive Equipment - Controls

UC Policy BUS-29 requires prudent control of equipment owned or in the custody of The Regents, with the custodial unit charged with the responsibility. The policy defines “other inventorial items” as items purchased for less than $5,000 or that have an expected normal life of one year or less, which are not inventoried as equipment, but for which are nevertheless subject to safeguards provided by the inventorial process. This category includes theft-sensitive items. Such items are expensed (versus capitalized) and are subject to local campus inventory control procedures. Sections I.E.3.c.i and I.E.3.c.vi of the policy define “other inventorial items” to include cameras and powered hand tools, respectively.

DPMO maintains six items that are considered non-inventorial theft-sensitive equipment, including one laser distance meter, two digital cameras, and three laser levels. Based on physical observation of the equipment items and the areas in which they are maintained, the following were noted:

* One of the digital cameras is not in the storage cabinet and is not noted as being checked-out on the departmental equipment issuance/return log.
* The departmental equipment issuance/return log is created from a dry-erase board, which is easily changed or modified without providing support for changes or an audit trail.
* Non-inventorial theft-sensitive equipment is not uniquely marked for identification purposes.
* An inventory listing of non-inventorial theft-sensitive equipment is not being maintained for physical inventory and/or control purposes.
* The key to the cabinet, where non-inventorial theft-sensitive equipment is stored, is easily accessed by any DPMO employee without any controls.

Recommendation: Management should perform the following:

* Investigate, verify, and document the disposition of the unaccounted for digital camera.
* Establish a departmental equipment issuance/return log with stronger controls.
* Identify each piece of non-inventorial theft-sensitive equipment with a unique marking.
* Develop a current and complete departmental listing of non-inventorial theft-sensitive equipment.
* Establish adequate controls over the key to the equipment storage cabinet.

By strengthening its system of controls, management will ensure the availability of all non-inventorial theft-sensitive equipment when needed, which will enhance the division’s operational effectiveness.

Response: Management has developed a process wherein the mentioned items will be stored in a locked cabinet at all times and access is assigned to two DPMO administrative personnel with back up provided by the Director. All equipment will be permanently identified as FM DPMO property. All items will be checked out through a manual tracking system.

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