

# UCLA AUDIT & ADVISORY SERVICES

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July 23, 2015

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

Re: Facilities Management – Central Warehouse Inventory Review Audit Report #15-2001

Enclosed is the audit report covering our review of internal controls and procedures associated with the Central Warehouse operations that are administered by the Finance & Information Systems (F&IS) division within the Facilities Management (FM) department.

The primary purpose of the audit was to ensure that F&IS' organizational structure and controls related to the Central Warehouse are conducive to accomplishing its business objectives.

The scope of the audit included:

- Inventory Procedures and Controls
- Physical Security
- Receiving/Issuance of Inventory

Based on the results of the work performed within the scope of the audit, processes relating to FM Central Warehouse operations are generally conducive to accomplishing the department's business objectives, and there is an adequate internal control structure for these processes. However, management could further strengthen controls by implementing the following:

#### Inventory Procedures and Controls

- Central Warehouse management should reconsider the current business practices of allowing the skilled crafts employees to go into the warehouse unaccompanied by a Central Warehouse employee and picking out the items they need, and then filling out the UCLA FM Materials to be Requisitioned Form (requisition form) without always reviewing it before the skilled crafts employees leave the warehouse.

#### Physical Security

- Update records to reflect all the current keys that can access inventory locations and the employees that have been issued these keys. Employee access should be reviewed periodically to ensure access is restricted to only appropriate personnel.
- Consider documenting all individuals who access the Central Warehouse after hours via the Tool Crib (TC), including requiring an explanation for any extended warehouse key check-out periods of greater than one hour.

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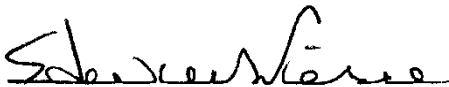
- Coordinate with Customer Relations management to identify the procedures to properly and adequately document the check in/out of Central Warehouse keys on the Trouble Call (TrC) key log.

Receiving/Issuance of Inventory

- Conduct training sessions for skilled craft employees explaining how to properly complete requisition forms and to emphasize their importance in managing Central Warehouse operations.

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.



Edwin D. Pierce, CPA, CFE  
Director

Enclosure

cc: J. Powazek

FACILITIES MANAGEMENT  
CENTRAL WAREHOUSE INVENTORY REVIEW  
AUDIT REPORT #15-2001

FACILITIES MANAGEMENT  
CENTRAL WAREHOUSE INVENTORY 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 associated with the Central Warehouse operations that are administered by the Finance & Information Systems (F&IS) division within the Facilities Management (FM) department.

The Central Warehouse supports various FM departmental units through the provision of a centralized requisition process for required materiel and equipment, and is managed by Materiel Management staff. Its mission is to provide a range of services that result in reduced material and labor charges to campus clients. The Central Warehouse is located in the FM Building which is adjacent to the Cogeneration Plant and UCLA Police Department. Materiel Management also operates two satellite storage areas that are located in the Center for Health Sciences (CHS) complex and the North Zone Utility (NZU) located in the Public Policy building.

Staffing for the main and satellite locations consists of six employees, headed by a Warehouse and Materiel Manager (Warehouse Manager). Over the past three fiscal years, FM reported the valuation of Central Warehouse inventory maintained as \$1.2 million in fiscal year (FY) 2012, \$980,000 in FY 2013, and \$1.1 million in FY 2014. The combined valuation of inventory maintained at the two satellite locations was reported as \$551,000 in FY 2012, \$542,000 in FY 2013, and \$579,000 in FY 2014. See Tables 1 and 2 below.

Table 1  
Central Warehouse  
Inventory Valuation and Business Volume  
FY 2012 – 2014

Fiscal Year	\$ Inventory Valuation	\$ Business through Warehouse (a)	\$ Inventory + Business (b)
2011-12	\$1,237,525	\$2,826,950	\$4,064,475
2012-13	\$979,876	\$2,717,006	\$3,696,882
2013-14	\$1,088,802	\$2,509,083	\$3,597,885
2012-14 Avg.	\$1,102,068	\$2,684,346	\$3,786,414

Source: Materiel Management staff

- Notes:
- (a) Represents the volume of business that processed through the Central Warehouse during the fiscal year.
  - (b) Represents the total inventory valuation at June 30th, plus the volume of business that processed through the Central Warehouse during the fiscal year.

Table 2  
Satellite Storage Locations  
Inventory Valuation  
FY 2012 – 2014

Fiscal Year	\$ CHS Valuation	\$ North Zone Valuation	\$ Total Satellite Inventory Valuation	\$ Satellite + Central Warehouse Valuation
2011-12	\$338,328	\$212,583	\$550,911	\$1,788,436
2012-13	\$335,602	\$206,019	\$541,621	\$1,521,497
2013-14	\$378,143	\$200,747	\$578,890	\$1,667,692
2012-14 Avg.	\$350,691	\$206,450	\$557,141	\$1,659,208

Source: Materiel Management staff

## Purpose and Scope

The primary purpose of the audit was to ensure that F&IS' organizational structure and controls related to the Central Warehouse are conducive to accomplishing its business objectives.

The scope of the audit included:

- Inventory Procedures and Controls
- Physical Security
- Receiving/Issuance of Inventory

The review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included 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, processes relating to FM Central Warehouse operations are generally conducive to accomplishing the department's business objectives, and there is an adequate internal control structure for these processes. However, management could further strengthen controls by implementing the following:

### Inventory Procedures and Controls

- Central Warehouse management should reconsider the current business practices of allowing the skilled crafts employees to go into the warehouse unaccompanied by a Central Warehouse employee and picking out the items they need, and then filling out the UCLA FM Materials to be Requisitioned Form (requisition form) without always reviewing it before the skilled crafts employees leave the warehouse.

### Physical Security

- Update records to reflect all the current keys that can access inventory locations and the employees that have been issued these keys. Employee access should be reviewed periodically to ensure access is restricted to only appropriate personnel.
- Consider documenting all individuals who access the Central Warehouse after hours via the Tool Crib (TC), including requiring an explanation for any extended warehouse key check-out periods of greater than one hour.
- Coordinate with Customer Relations management to identify the procedures to properly and adequately document the check in/out of Central Warehouse keys on the Trouble Call (TrC) key log.

### Receiving/Issuance of Inventory

- Conduct training sessions for skilled craft employees explaining how to properly complete requisition forms and to emphasize their importance in managing Central Warehouse operations.

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

## Audit Results and Recommendations

### Inventory Procedures and Controls

Interviews were conducted with the Warehouse Manager to obtain an overview of procedures related to inventory records. A&AS selected a judgmental sample of 30 items and performed a two-way test to verify whether the inventory records in Maximo reflect the physical inventory on-hand. Audit testing also included a review of the FY 2014 Central Warehouse inventory report to identify the overall variances across all items listed. Procedures and reports for identifying frequently used items to optimize inventory stock and for managing variances were also reviewed for adequacy. The following were noted:

#### A. Inventory Records

The fiscal year-end inventory count is performed by an outside vendor. After the first physical inventory count is performed, the Warehouse Manager runs the "Inventory Physical Count Results – MM052" report that includes the current balance of each item in Maximo, physical count, difference between the current balance and the physical count, and cost variance. Items with a variance greater than \$1,000 are identified and counted again. Any corrections are made before running the report a second time to identify items with variances greater than \$500. After counting and correcting any items greater than \$500, the final report is run and correct counts are updated in Maximo.

Once the physical inventory is complete, the Warehouse Manager performs a review of the variances. For example, similar items that are stored next to each other are checked frequently. After further investigation, corrections are updated in Maximo.

A&AS performed a count of selected inventory items on March 12, 2015. Based on the work performed, A&AS noted that inventory records do not always



accurately reflect the physical inventory on-hand and some inventory items may not be easily located. A two-way test was performed using a sample of inventory items and comparing Maximo records to actual warehouse shelf stock, and then a separate sample of items was compared from warehouse shelves to what was recorded in Maximo records.

Out of 15 items selected from Maximo, 8 (53%) tested did not match the physical inventory on the Central Warehouse shelves (item variances ranged from -6 to +6). Out of the 15 items selected from the Central Warehouse inventory shelves, 12 (80%) of the physical inventory tested did not match inventory records in Maximo (item variances ranged from -213 to +90). In addition, the Warehouse Manager and A&AS were unable to locate one item's shelf tag. After checking Maximo records, the item was identified as a buy-out (order as needed) item with "0" in stock.

In addition, A&AS performed a review of the "Inventory Physical Count Results – MM052" report for FY 2014. The year-end physical count results disclosed that there were about 9,200 line items, and nearly 3,300 (about 36%) were noted as having a variance, i.e., inventory records in Maximo did not match the results of the annual physical count. The top five variances (largest percentage) included the following types of inventory items:

Item Type	Packet ID# Grouping	Number of Line Items	Number of Line Item Variances	Total Cost Variance
Lights/Fixtures	285-100-0000 – 285-999-9999	1,219	540	(\$13,068.31)
Batteries/Electrical	285-006-0000 – 285-084-9999	827	404	\$2,386.30
Plumbing	670-000-0000 – 670-999-9999	976	329	(\$5,081.60)
Screws/Nuts/Bolts	310-000-0000 – 323-999-9999	390	318	(\$4,348.33)
Custodial Supplies	485-000-0000 – 485-999-9999	443	254	\$3,887.00

Without accurate records, inventory reports do not provide reliable data to base future purchases on, financial reports could be under/over stated, and inventory shrinkage may not be detected timely. Missing shelf tags can prevent employees from efficiently finding a needed item and can result in inaccurate physical inventory counts.

Recommendation: Due to physical inventory variances, Central Warehouse management should reconsider the current business practices of allowing the skilled crafts employees to go into the warehouse unaccompanied by a Central Warehouse employee and picking out the items they need, and filling out the requisition form without always reviewing it before the skilled crafts employees leave the warehouse. In addition, Central Warehouse employees should periodically check inventory items throughout the fiscal year that show high unit and dollar variances to help ensure that inventory records are accurate.

Response: Facilities Management concurs and is evaluating the access allowed to skilled crafts employees and the processes for completing requisition forms. In addition, Facilities Management will evaluate its periodic cycle counting and analyze whether adjustments are needed. This will be completed by December 2015.

B. Inventory Usage/Analysis

The Warehouse Manager runs Daily Inventory Issues (DII), ReOrder Point (ROP), and Economic Order Quantity (EOQ) reports to identify frequently used items and optimize inventory stock levels.

The DII report shows all items entered for one day. This report is reviewed to validate items entered and the quantity is checked to make sure it is the correct unit of measure. A Central Warehouse employee reviews this report daily and the Warehouse Manager reviews it weekly.

The ROP and EOQ reports are run annually and reviewed by the Senior Lead Storekeeper who marks up items for adjustment based on past knowledge of inventory space and usage. The Central Warehouse Manager makes all the noted adjustments in Maximo.

The Senior Lead Storekeeper is responsible for reordering items. There is a reorder function in Maximo that sends an email with a Purchasing Requisition number when an item reaches the ROP. The Senior Lead Storekeeper also physically walks through the warehouse and identifies items that appear to be low, based on current usage.

There were no significant control weaknesses found in this area.

### Physical Security

Interviews were conducted with FM management and staff to obtain an overview of physical security over inventory areas and to identify potential security risks. Documentation was reviewed to determine whether inventory area access was adequate and appropriate. Tours of the Central Warehouse and satellite storage areas and walk-throughs of key processes were also conducted to determine whether inventory was physically secured and adequately safeguarded. The following were noted:

#### A. Key Records

A listing of personnel with key access to exterior doors of the Central Warehouse inventory areas was reconciled to the FM Hardware Shop's records and reviewed with management to ensure that access was restricted to only appropriate personnel.

Current access to the Central Warehouse and satellite locations appears to be adequate and appropriate; however, A&AS' review noted that the Hardware Shop

and Warehouse Manager records did not match. For example, Hardware Shop records included three additional keys that the Warehouse Manager had no record of, while the Warehouse Manager had recorded one extra key that was not included on the Hardware Shop's records.

Further research revealed that the hardware cage key was updated without the Warehouse Manager's knowledge, one key listed in the Hardware Shop's records did not appear in the Warehouse Manager's records, and one key was not recorded as part of the Warehouse Manager's area (though it still provided access to the Central Warehouse). In addition, the total quantity issued for six keys in the Hardware Shop's records did not match the quantity of active keys in the Warehouse Manager's records. Without accurate and complete records of all keys that provide entry to Central Warehouse areas, there is an increase of risk that inappropriate access and potential asset loss could occur if an employee who had been issued a key, change their job or separates from the University.

Recommendation: Department management should update applicable records to reflect all the current keys that can access both the main and satellite inventory locations, and the employees that have been issued these keys. In addition, employee access should be reviewed periodically to ensure that only appropriate personnel have authorized entry.

Response: Facilities Management concurs and will evaluate the best method for accessing the warehouses and tracking that access. This will be completed by December 2015.

B. After Hours Access – Tool Crib

The TC sign-out log was reviewed for key check out activity covering the period of February 17, 2015, through March 6, 2015. The review was performed to determine whether TC personnel document all instances when personnel from the skilled craft units access the Central Warehouse after normal business hours.

Normal daytime business hours are between 6:30 a.m. to 4:30 p.m. The number of instances the Central Warehouse key was scanned out was identified, and any extended time periods of check out (check out exceeding an hour) were noted. Possible explanations for extended check out time periods were discussed with the Warehouse Manager.

A&AS review disclosed that TC personnel do not document all instances when personnel from the skilled crafts units access the Central Warehouse after normal business hours. TC personnel only scan the Central Warehouse key out to a skilled crafts employee when that employee accesses the warehouse unaccompanied between the hours of 4:30 p.m. and midnight. When TC staff accompanies a skilled crafts employee into the Central Warehouse after hours, the skilled crafts employee is not required to have their badge scanned. As a result, there is no record of entry in that instance.

In addition, during the 59 times the key was checked out from the TC between February 17, 2015, and March 6, 2015, there were eight instances when the Central Warehouse key was checked out for an extended period of time. The extended check out periods varied from 1 to 5 hours (five instances), to overnight (three instances). Management explained that this could be due to TC employees forgetting to re-scan the key when it is checked back in. The key must be re-scanned as returned before it can be issued to another employee. Management also indicated that another possibility could be due to the skilled crafts employee forgetting that they have the key and then returning it later. Based on the work performed, A&AS could not confirm the reasons for any of the extended check out times.

Recommendation: Management should consider documenting all instances of employees accessing the Central Warehouse after hours via the TC. Any extended check out periods for the Central Warehouse key should include an explanation. By doing so, an audit trail of all instances of after hours access, and

the reasons for any extended check out periods, would be documented to help improve physical controls and reduce the risk of loss.

Response: Facilities Management partially concurs and is evaluating the access allowed to skilled crafts employees and the processes for completing requisition forms. Accessing the Central Warehouse through the tool crib is only a small part of the issues around access and reporting. The recommendation that logging lengthy check-out periods through the tool crib presumes Facilities Management will continue that practice and that it will improve physical control. TC personnel providing access to the Central Warehouse will be addressed in the much larger issue of Central Warehouse access (see above page 7).

C. After Hours Access – Trouble Call

The TrC desk key sign-out log was reviewed to determine whether TrC personnel document all instances when personnel from the skilled crafts units access the Central Warehouse after normal business hours. Instances when the Central Warehouse key was checked in/out were identified and counted, and any fields missing information were noted.

The TrC desk, located in the FM Customer Relations office, maintains a key sign out log to record instances when individuals check out keys for the Central Warehouse or other facilities after hours. FM skilled crafts employees can check out the Central Warehouse key from the TrC desk between the hours of midnight and 6:30 a.m.

Test work indicated that TrC personnel do not always record their initials in the sign out log to signify when personnel from the skilled crafts units access the Central Warehouse after normal business hours. Between February 14, 2015, and March 11, 2015, a total of 43 instances were recorded in the key sign-out log when the Central Warehouse key ring was checked in and out. Of the 43 instances, 23 (53%) were not initialed by TrC personnel when the key was signed out. In

addition, 16 instances (37%) were not initialed when the key was signed back in upon return. Without a complete and accurate record of after hours key usage, management's ability to detect and investigate potential instances of unauthorized inventory use or Central Warehouse access in the future will be diminished.

Recommendation: Department management should coordinate with Customer Relations personnel to review the current procedures for properly documenting the check in/out of Central Warehouse keys. Upon completing the review, any needed revisions should be communicated to all applicable staff throughout the department to enhance existing controls over the Central Warehouse inventory.

Response: Facilities Management concurs and will evaluate the best method for accessing the warehouses and tracking that access. This will be completed by December 2015.

#### D. Inventory Access Points

Tours were conducted of the Central Warehouse and satellite locations to determine whether inventory was physically secured and adequately safeguarded. All physical access points were observed, noting all exterior doors, the specific lock and key identification numbers for each door, and where each door led to.

The Central Warehouse ground floor has one exterior roll up door (electronically powered), two exterior doors with key locks, and one interior door with a key lock. The basement has four interior doors, three of them with key locks. One basement stairwell door is not accessible and is locked from the stairwell side. The CHS satellite inventory location has one Dutch door with a key lock that is accessed via an interior hallway. The NZU satellite inventory location has one exterior pair of doors that remain locked until access is requested by calling Central Warehouse personnel.

There were no significant control weaknesses found in this area.

## E. Surveillance Cameras

Interviews were conducted with the Warehouse Manager and Security/Fire Alarms Supervisor to evaluate whether surveillance camera coverage throughout the Central Warehouse and camera access was adequate and appropriate.

The Central Warehouse has nine surveillance cameras located in multiple locations. The Warehouse Manager has access to the live camera recording via a website, using a unique login and password. The Contracting & Materiel Manager and four Network/Security Alarm Shop employees also have access. The Contracting & Material Manager has a unique login/password and the Alarm Shop shares one login/password. Recordings are saved on a server for approximately five months. There is one server locked in an electrical vault on the ground floor of the FM building, and another on the second floor of the building in a hub server room. The electrical vault can only be accessed by Alarm Shop staff and electricians. The electricians do not have the login/password to access the cameras. Only Information Technology and Network/Security Alarm Shop staff have access to the hub server room.

There were no significant control weaknesses found in this area.

### Receiving/Issuance of Inventory

Interviews were held with the Warehouse Manager and processes to receive and issue inventory were observed to evaluate the adequacy of procedures. Inventory quantities in Maximo were reviewed to verify whether inventory records were updated accurately.

#### A. Issuance of Inventory

Due to limited staffing, items removed from the inventory stock are not always physically verified by Central Warehouse personnel before being removed. This practice would appear reasonable if requisitions are filled out properly; however,



out of the 20 requisitions submitted during the morning of April 3, 2015, only 5 (25%) were completed adequately by FM skilled crafts employees. The remaining 15 requisition forms were missing information (e.g., item descriptions, unit of measure, etc.). The incomplete forms are time-consuming for warehouse employees to research and may result in incorrect inventory updates and billing issues.

Recommendation: Central Warehouse management should consider conducting training sessions for skilled crafts employees explaining how to properly complete requisition forms, and to emphasize their importance in managing warehouse operations. Conducting targeted training sessions may help increase the proportion of accurately completed forms and improve efficiency of Central Warehouse operations.

Response: Facilities Management concurs and will continue to train Facilities Management personnel on the proper way to pull and document warehouse inventory withdrawals. This is done on an on-going basis and will be re-done comprehensively after the warehouse access assessment is completed in December 2015.

#### B. Receiving of Inventory

Based on the work performed, items received were manually counted, compared with packing slip documents, and examined by Central Warehouse personnel before being placed into inventory stock. Associated Maximo records were updated accurately.

There were no significant control weaknesses found in this area.