

UCLA AUDIT & ADVISORY SERVICES



Edwin D. Pierce, CPA, CFE
Director

10920 Wilshire Boulevard, Suite 700
Los Angeles, California 90024-1366
310 • 794-6110
Fax: 310 • 794-8536

June 14, 2016

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

Re: Housing & Hospitality Services – On Campus Housing – Maintenance Shop Audit Report
#16-2223

Enclosed is the audit report covering our review of the On Campus Housing (OCH) Maintenance Shop's activities. The primary purpose of the audit was to ensure that the Maintenance Shop's organizational structure and controls, and the related systems and procedures are conducive to accomplishing its business objectives. Compliance with University policies and departmental procedures was also assessed.

The scope of the audit included the following activities:

- Budget and Planning Processes
- Satellite Storage Areas
- Inventory
- Purchasing and Receiving
- Post Authorization Notifications (PANs)
- Information Systems

Based on the results of the work performed within the scope of the audit, the OCH Maintenance Shop's overall organizational structure and controls are adequate and effective in helping achieve its business objectives related to inventory and procurement functions. Internal controls could be further strengthened by ensuring that mandatory reviewers read their Post Authorization Notices (PANs) in a timely manner.

The corrective action implemented by management satisfactorily addresses the audit concern and recommendation contained in the report. In accordance with our follow-up policy, a review to assess the implementation of our recommendation 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.

A handwritten signature in black ink, appearing to read "Edwin D. Pierce".

Edwin D. Pierce, CPA, CFE
Director

Enclosure

cc: M. Beck
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HOUSING & HOSPITALITY SERVICES
ON-CAMPUS HOUSING MAINTENANCE SHOP
AUDIT REPORT #16-2223

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ON-CAMPUS HOUSING MAINTENANCE SHOP
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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 the On-Campus Housing (OCH) Maintenance Shop activities.

The OCH Maintenance Shop is located within Housing & Hospitality Services' (H&HS) Rooms Division. Its primary objective is to provide routine maintenance and repair support to the UCLA residence halls, University Guest House, North and South Residential Suites, and the Northwest Housing expansion that includes four residential towers. Services are performed during and after regular business hours, and emergency maintenance services are performed on an as-needed basis.

The OCH Maintenance Shop receives approximately 32,000 work orders on an annual basis, which range in level of priority. Maintenance Shop response times are determined based on four different levels of priority, which are assigned to incoming maintenance requests. For example, "hazards to life, health, property and security" are considered to be priority level one (highest priority) and require immediate or same day service. Likewise, "desirable and non-critical improvements for apartments and common areas" are defined as priority level four (lowest priority) and require work to be performed within 30 business days. Maintenance requests are managed using the work order module of IBM's Maximo system.

Services provided by the OCH Maintenance Shop include painting and plastering, carpentry, plumbing, welding, electrical, glass and mirror replacement, heating, ventilation, air conditioning (HVAC), and maintenance of food service equipment. The shop maintains an inventory of equipment, tools, parts, materials, and supplies to perform maintenance and repair functions.

As of the December 2015 inventory count, the inventory included 2,985 stock part types and 40,467 total stock items.

The inventory module of IBM's Maximo system is used to maintain a database of stocked items. Warehouse personnel use the inventory module to initiate purchase requisitions and track the movement of inventory items. Purchase requisitions are processed by the OCH Maintenance Accounts Payable group, using the University's BruinBuy purchasing system. The two systems are not linked and require duplicate data entry for purchasing and receiving functions.

The fiscal year 2015-16 budget for parts and supplies expenditures for the OCH Maintenance Shop totals approximately \$2.4 million. Inventory on-hand for the OCH Maintenance Shop as of December 2015 was \$169,559.

There are approximately 149 full-time employees, including an Associate Director of Building Maintenance Operations and an Assistant Director of Housing & Hospitalities Maintenance, both of whom report to the H&HS Rooms Division Director and oversee the OCH Maintenance Shop operation.

Purpose and Scope

The primary purpose of the audit was to ensure that the OCH Maintenance Shop's organizational structure and controls, and the related systems and procedures surrounding the inventory and procurement functions are conducive to accomplishing its business objectives. Compliance with University policies and departmental procedures was also assessed. The scope of the audit included the following activities:

- Budget and Planning Processes
- Satellite Storage Areas
- Inventory
- Purchasing and Receiving
- Post Authorization Notifications (PANs)

- Information Systems

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, the OCH Maintenance Shop's overall organizational structure and controls are adequate and effective in helping achieve its business objectives related to inventory and procurement functions. Internal controls could be further strengthened by ensuring that mandatory reviewers read their Post Authorization Notices (PANs) in a timely manner.

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

Audit Results and Recommendations

Budget and Planning Processes

A&AS discussed with management the budgeting and planning processes for the OCH Maintenance Shop. Additionally, A&AS reviewed the fiscal year 2014-15 OCH Maintenance budget, the June 2015 financial variance report, and the June 2015 general ledger reconciliation.

The OCH Maintenance Shop does not generate revenue (within the department internally) and currently does not recharge other departments. Expenses are allocated to other OCH units at year-end.

OCH Maintenance Shop's annual budget is based solely on expenses. The budget changes each year due to factors such as bed counts, staffing levels, inflationary adjustments, etc. Changes to labor (involving new positions) are made by the Housing Director of Budget & Financial Planning, after being vetted by the Assistant Vice Chancellor of H&HS. The OCH Maintenance Shop Assistant Director of Building Maintenance Operations, Office Manager, and Contracts Manager prepare the proposed budget, the Director of Rooms Division reviews it, and the budget is ultimately approved by the Housing Director of Budget & Financial Planning.

The OCH Maintenance Shop Assistant Director of Building Maintenance Operations, Office Manager, and Contracts Manager are responsible for reviewing and monitoring the annual budget on a monthly basis throughout the year. Formal variance reporting is now done through an online, Oracle-based, template system. Actual expenses that vary from the budgeted amount by more than 3% or \$5,000, require a justification. Using the Oracle system, the Housing Director of Budget & Financial Planning generally highlights which line items should be addressed, including further information on items that do not fall within the 3% or \$5,000 rule. The OCH Maintenance Shop Office Manager provides variance responses for most accounts and line items (less utilities),

and the OCH Maintenance Shop Contracts Manager does the same for the utility accounts.

The OCH Maintenance Office Manager is responsible for performing the monthly general ledger reconciliation and the OCHM Assistant Director of Building Maintenance Operations reviews the reconciliation. Discrepancies are reviewed and/or corrected based on the specific issue or cause determined.

Based on the discussions with management regarding the budget and planning processes for the OCH Maintenance Shop and review of the fiscal year 2014-15 OCH Maintenance budget, the June 2015 financial variance report, and the June 2015 general ledger reconciliation, controls over the budgeting and planning processes appears appropriate.

There were no significant control weaknesses noted in this area.

Satellite Storage Areas

A&AS performed a walk-through of the following seven satellite storerooms that are currently in use: Hedrick Hall, Sproul Covel, Sproul Landing, Delta Terrace, Gardenia, Dykstra, and the Guest House Garage. Additionally, A&AS discussed with management the objectives and the operating processes of the satellite storerooms.

The purpose of a satellite storeroom is to have the top 25 items used for a given residence hall at the building to avoid delays in the time it takes for the mechanics to retrieve a commonly used part. Whenever parts are issued to the satellite storerooms from the maintenance parts room, they are inventoried in the Maximo system under the corresponding satellite storeroom. The following were noted:

A. Written Procedures

A&AS obtained and reviewed the current satellite storeroom procedures to determine that the procedures are being adhered to and are adequate in meeting the satellite storerooms objectives.

Per management, satellite storeroom employees were trained when the satellite storerooms were implemented. As new satellite storerooms are being developed, management will review satellite storeroom processes with employees.

The satellite storeroom employees follow the policies and procedures that were created and reviewed by OCH Human Resources. However, due to union issues, the satellite storeroom procedures have not been reviewed by the union for the line staff. Once the line staff have a union agreement in place, OCH management will have the union review their new guidelines and then release the rules as an introduction for each new employee. The information regarding the union situation has been printed and given to each of the mechanics that have a satellite shop. There is also a copy in each storeroom.

Based on audit review of the satellite storeroom procedures and tours of the satellite storerooms, the procedures currently in place appear adequate in meeting the objectives of the satellite storerooms.

There were no significant control weaknesses noted in this area.

B. Physical Security

Based on the walk-throughs of the seven maintenance satellite storerooms that are currently in use and the OCH Maintenance Shop parts room, safeguards for maintaining adequate physical security over its inventory and other related university assets appears appropriate. Also, it was confirmed with management

that the current employees who have access to the satellite storerooms and the OCH Maintenance Shop parts room is appropriate.

The majority of the satellite storerooms and the OCH Maintenance Shop parts room contain industrial type heavy duty steel doors with an Onity lock that requires a key card to enter. Some of the other satellite storerooms are caged locations that are secured with a chain and heavy duty lock that requires a key to open.

Building mechanics and staff only have access to their assigned satellite storeroom. However, lead mechanics and managers can access satellite storerooms other than their own. If a part is not available from their assigned storeroom, the lead mechanic or manager can retrieve the part from a nearby satellite storeroom. This would be documented on a transfer ticket that captures the work order number the part relates to, the item number, a description of the item, the quantity, and who issued the item.

There were no significant control weaknesses noted in this area.

Inventory

Audit test work included reviewing the OCH Maintenance Shop physical inventory counts for 2015 to ensure that quarterly and annual inventory counts are being performed, per the OCH Maintenance Shop Inventory procedures.

Additionally, A&AS tested the existence of physical inventory and the completeness and accuracy of inventory records by vouching a sample of 25 items from the current inventory list in Maximo to the physical quantities of the items in the OCH Maintenance Shop parts room. The OCH Maintenance Shop parts room is the principal location for inventory storage.

Lastly, 15 inventory issuances between October 2015 and December 2015 were examined to ensure that items had appropriate work orders and supporting documentation and were accurately recorded in Maximo. The following were noted:

A. Inventory Counts

A&AS obtained and reviewed the physical inventory counts performed during 2015 from the Assistant Director of Housing & Hospitality Maintenance to verify that physical inventory counts are being performed in accordance with the OCH Maintenance Shop Inventory procedures.

Per the OCH Maintenance Shop Inventory procedures, physical inventory counts should be performed on a quarterly and annual basis. However, due to the Parts Room Manager position being vacant for almost a year and the upgrade to the Maximo system, quarterly physical inventory counts were not performed. Instead, two full inventory counts were performed during the 2015 calendar year.

The first physical inventory count was performed in April 2015 during the upgrade to the new Maximo system. The physical inventory count for all inventory items was performed as a starting point into the new Maximo system. The second physical inventory count was performed in December 2015 to serve as the annual inventory count. The results of the updated annual count included variances and served as a starting point for the new Parts Room Manager, who took over the parts room at the end of December 2015.

The December 2015 variances between the Maximo records and the physical inventory count were analyzed. Variances were input into the Maximo system by management to reflect the results of the physical count. Management decided that the best course of action for significant variances was to review them with the new Parts Room Manager so that he could focus on these issues moving forward.

As a result of the upgrade to Maximo and the vacant Parts Room Manager position, A&AS staff performed a limited review of the variances for the December 2015 physical inventory count. Test work indicated there did not appear to be any significant dollar variances and the practice of physical inventory counts appears to be adequate.

There were no significant control weaknesses noted in this area.

B. Inventory Records

Based on audit testing performed in January 2016, business practices over inventory records appear to be adequate. Inventory records between the Maximo system and what was physically on hand matched in 24 out of the 25 items reviewed. The remaining item had two more quantities on hand versus what was indicated in Maximo. The dollar variance for this difference amounted to \$117.90.

It should be noted that discussions with management indicated a variance report is being developed in the Maximo system by the Maximo Application Administrator. The variance report will allow management to review the differences between physical counts and what is recorded in Maximo. Once developed, this report should be reviewed on a periodic basis to help identify any large discrepancies.

There were no significant control weaknesses noted in this area.

C. Inventory Issuances

Based on the audit testing performed, controls over the inventory issuance process appear to be adequate for all 15 selections tested. All issuances had supporting work orders, the correct type/amount was issued, work orders were properly approved, and the issuances were properly documented in the Maximo system.

There were no significant control weaknesses noted in this area.

Purchasing and Receiving

A. Purchasing

A sample of 40 purchase transactions were selected from the campus general ledger for testing to ensure compliance with UC Business and Finance Bulletin BUS-43, "Materiel Management" (BUS-43) and departmental policies and procedures. Twenty purchases were selected from the Res Halls Maintenance Shop (760405-70002) account during fiscal year 2014-15 and the remaining twenty purchases were from the various direct maintenance accounts during the period January to June 2015.

Based on test work performed, all 40 purchases were made in accordance with BUS-43. Audit testing indicated that work orders and vendor quotes for purchases were adequately approved by the applicable shop manager. Additionally, purchase requests were appropriately reviewed and approved, and were placed in the BruinBuy system by authorized OCH employees within their approved purchasing authority limits. Further, all purchases had proper authorization for payment by the Assistant Director of Building Maintenance Operations. Lastly, when required, either a work order or OCH Maintenance Order Form was appropriately generated for the purchase.

There were no significant control weaknesses noted in this area.

B. Receiving

The above sample of purchasing transactions was used to ensure receiving of goods and services are performed prior to payment of invoices. Audit testing for 31 of the items indicated that all items physically received by the OCH Storekeepers were properly inspected, when required. The remaining nine items related to a service and signing for goods received was not required. In addition, all purchases tested were accurately recorded in the Maximo inventory database and the BruinBuy purchasing system, when required. It should be noted that in 21

instances, A&AS could not verify items were properly updated in the Maximo system since OCH Maintenance Shop staff could not access Maximo system documentation for purchases made prior to the Maximo upgrade (April 2015).

A review was made to ensure vendors were paid in a timely manner. A majority of the vendors were paid timely. However, in eight instances, there was a time lag of two to six months between the invoice/document date and effective date. Further review of these transactions indicated the reason for the delay was for the most part due to the vendor not billing in a timely manner.

There were no significant control weaknesses noted in this area.

C. Post Authorization Notifications (PANs)

Based on audit review of 40 purchase selections, it was noted that PANs for 26 of the 40 (65%) purchases were not read in a timely manner by OCH Maintenance Shop employees as required by UCLA Financial Policy. The following were noted:

- In 15 instances, purchase selections from the Res Halls Maintenance Shop (760405-70002) account during fiscal year 2014-15 had PANs unread by a mandatory reviewer ranging from 6 to 21 days.
- In 11 instances, purchase selections from the direct maintenance accounts between January 2015 and June 2015 had PANs unread by a mandatory reviewer ranging from 6 to 12 days.

According to UCLA Financial policy Section 3, F.1, "A reviewer must review a transaction within two working days of receipt." Timely PAN reviews help to ensure that transactions are proper and appropriate.

Recommendation: Management should remind mandatory reviewers to read their PANs in a timely manner.

Response: Mandatory reviewers will be reminded to review their PANs in a timely manner and random checks by an Assistant Director of Maintenance will ensure compliance.

Information Systems

A&AS discussed with management the controls over the Maximo inventory system, which is used to maintain a database of stocked items.

A. Maximo User Access

Audit review included discussing with management the various types of user access to the Maximo system and what functions each level of access allows an employee to perform. In addition, A&AS staff reviewed the listing of all users who have access to the Maximo system to verify that access is appropriate. Based on the review performed, Maximo user access appears appropriate.

There were no significant control weaknesses noted in this area.

B. Maximo Reports

Audit review included discussions of what types of reports could be generated from the Maximo system and verifying that they are being utilized and reviewed by management.

Through discussions with management, as of March 9, 2016, the ABC Analysis report will be utilized by management on a go forward basis to identify frequent moving inventory as well as slow moving inventory (dead/obsolete stock).

The remaining Maximo reports that can be generated are currently not used. After the Maximo system upgrade in April 2015, the Parts Manager vacated the position so there was not a manager closely reviewing Maximo reports. OCH Maintenance has now hired a new Parts Manager as of the end of December 2015, who will be reviewing the ABC Analysis report on a quarterly basis (end of the month – March, June, September, and December). The use of the remaining reports will be reviewed during the next audit cycle. This will allow time for the new Parts Manager to adjust in the new role.

There were no significant control weaknesses noted in this area.