UCLA AUDIT & ADVISORY SERVICES

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October 13, 2015

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

Re: Housing & Hospitality Services – University Apartments – Maintenance Shop
Audit Report #15-2235

Enclosed is the audit report covering our review of the University Apartment's (UA) Maintenance Shop 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:

- Inventory
- Purchasing and Receiving
- Physical Security

Based on the results of the work performed within the scope of the audit, UA's overall organizational structure and controls are generally conducive to accomplishing its business objectives related to Maintenance Shop activities. However, internal controls could be further strengthened by implementing the following:

- In order to ensure that complete, accurate, and reliable inventory records are maintained in Maximo, management should set up a timeframe to perform a sample review of inventory items on a periodic basis. Also, serious financial consideration should be given to allocate resources in order to help support Maximo and the development of inventory variance reports.

- Physical inventories should be performed on a bi-annual basis, in accordance with UA inventory procedures.

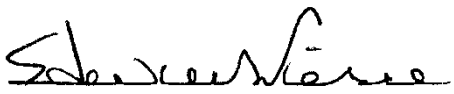
- UA inventory procedures with regards to Facilities Sign-Out sheets should be updated to reflect current business practices.

- To ensure that timely payment is made to vendors and expenses are accurately recorded, staff should be reminded to properly retain packing slips when received and forward them to appropriate parties for processing of vendor payments.

- Management should remind mandatory reviewers to read their Post Authorization Notices (PANs) in a timely manner.

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.



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Enclosure

cc: S. Olsen

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HOUSING & HOSPITALITY SERVICES
UNIVERSITY APARTMENTS - MAINTENANCE SHOP
AUDIT REPORT #15-2235

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UNIVERSITY APARTMENTS - MAINTENANCE SHOP
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Background

In accordance with the UCLA Administration fiscal year 2014-15 audit plan, Audit & Advisory Services (A&AS) conducted a review of the University Apartment's (UA) Maintenance Shop activities. UA, an off-campus housing facility for faculty, graduate, and undergraduate students, has 23 apartment complexes spread across two zones: UA North and UA South. There are 3,638 apartments with the capacity to house 5,357 occupants.

The primary objective of the Maintenance Shop is to provide repair and maintenance services to the off-campus apartments and related common areas. Services are performed during and after regular business hours, and emergency maintenance services are performed on an as-needed basis. The Maintenance Shop receives over 35,000 work orders on an annual basis, which range in level of priority. The UA Resident Handbook defines the Maintenance Shop response times for 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 thirty business days. Maintenance requests are managed using the work order module of IBM's Maximo system.

The Maintenance Shop stocks over 1,800 frequently used parts and supplies in two main storage locations (in two warehouses, the North and South shops). During the audit, parts and supplies were also stored in two paint rooms (North and South paint

rooms). Currently, supplies and parts are only stored in the North and South warehouses, and paint rooms are used as a workspace area for painters.

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 UA 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 2014-15 budget for parts and supplies expenditures for both UA North and South shops totals approximately $1.4 million. Inventory on-hand for the two shops as of January 2015 was approximately $443,600. In addition, for year-to-date fiscal year 2014-15, UA purchased approximately $821,600 in furniture and appliances. There are approximately 138 full-time employees, including an Assistant Director, who reports to the Director of University Apartments.

Purpose and Scope

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:

- Inventory
- Purchasing and Receiving
- Physical Security

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, UA's overall organizational structure and controls are generally conducive to accomplishing its business objectives related to Maintenance Shop activities. However, internal controls could be further strengthened by implementing the following:

- In order to ensure that complete, accurate, and reliable inventory records are maintained in Maximo, management should set up a timeframe to perform a sample review of inventory items on a periodic basis. Also, serious financial consideration should be given to allocate resources in order to help support Maximo and the development of inventory variance reports.

- Physical inventories should be performed on a bi-annual basis, in accordance with UA inventory procedures.

- UA inventory procedures with regards to Facilities Sign-Out sheets should be updated to reflect current business practices.

- To ensure that timely payment is made to vendors and expenses are accurately recorded, staff should be reminded to properly retain packing slips when received and forward them to appropriate parties for processing of vendor payments.

- Management should remind mandatory reviewers to 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

Inventory

Audit review included testing the existence of physical inventory, and the completeness and accuracy of inventory records, by vouching a sample of 20 items from the current inventory list in Maximo, to the physical quantities of the items in the storage locations. Also, UA's physical inventory counts for 2014 were reviewed to ensure that bi-annual inventory counts are being performed at the North and South shops. Additionally, 12 inventory and non-inventory issuances between July 2014 and January 2015 were examined to ensure that items had appropriate work orders and supporting documentation, and were accurately recorded in Maximo.

The following concerns were noted:

A. Inventory Records Discrepancies

Based on the 20 inventory items tested, the quantity recorded in Maximo for 9 items did not match the physical count. The discrepancies are detailed below:

No.	Maximo Item Number	Item Description	Issue Unit	Bin Storage Location	# of Units in Maximo Inventory System	# of Units Counted in North/South Shops	Count Variance
Maximo Listing to Inventory on Hand (List to Floor): 1-3							
Inventory on Hand to Maximo Listing (Floor to List): 4-6							
1)	2554	MICROWAVE - Countertop, White, G.E., .7 Cu.Ft.	EACH	3120-056	12	13	1
2)	374	FIXTURE - Light, Geodome, 30W, LED Bronze	EACH	3327-STR	7	0	(7)
3)	1100	THERMOSTAT - 24V, Non-Program, Honeywell	EACH	T-04-00	21	17	(4)
4)	584	DEFROST HEATER - Refrigerator	KIT	C-01-00	4	5	1
5)	1636	HEAD - Shower, Water Saver, Satin Nickel	EACH	T-01-00	32	66	34
6)	1913	FAUCET - Kitchen, Kohler	EACH	MR-02-00	5	20	15
North Maintenance Shop (store 2)							
Maximo Listing to Inventory on Hand (List to Floor): 7							
Inventory on Hand to Maximo Listing (Floor to List): 8-9							
7)	18316	STOVE - 30", 5-Burner, Stainless	EACH	P-205	1	2	1
8)	1049	FAN - Exhaust, 50 CFM, Broan 688	EACH	G-00-00	10	9	(1)
9)	030101	HANDLE - Refrigerator, Freshwood, Whit. G.E.	EACH	T-05-04	15	21	6

Inaccurate inventory records in Maximo may impede management's ability to monitor and analyze the movement of inventory, and may increase the risk of undetected misappropriations.

Also, management indicated that their version of Maximo does not currently have the capability to run variance reports that show the difference between physical counts and what is recorded in Maximo. Due to this reporting limitation, the inventory variances are currently not reconciled, resulting in the risk of potentially unidentified losses. UCLA Policy 360, Attachment A (Guidelines for Application of Internal Control Principles), for equipment and supplies inventories states that "A physical count of inventory should be taken… Management shall be advised of significant inventory discrepancies."

Recommendation: In order to ensure that complete, accurate, and reliable inventory records are maintained in Maximo, management should set up a timeframe to perform a sample review of inventory items on a periodic basis, by counting the items on-hand and comparing them to the quantity in Maximo. Any significant variances between Maximo and the physical inventory on-hand should be properly investigated and documented.

Prior audit reviews have recommended developing variance reports in Maximo, which would indicate the differences between physical counts and what is recorded in Maximo. This has been difficult to do given the limited resources available to manage the Maximo system. Serious financial consideration should be given to allocate resources in order to help support Maximo and the development of inventory variance reports. This report should be reviewed by management on a periodic basis, and would help to identify any significant discrepancies.

Response: Concur. A new Maximo program was underway when UA conducted the count. This new program should provide appropriate reports to reconcile these counts. UA Management has requested that the latest version of Maximo has the capability of generating variance reports in order to perform monthly "spot" checks of physical inventory on the 1st business day of the month, as well as complete inventory counts on an annual basis. The Maximo Application Administrator has advised that UA Management can run the following three reports: 1) Monthly

Cycle counts; 2) Annual Inventory Count; and 3) Inventory Discrepancy Report by December 1, 2015.

B. Inventory Counts

While the UA Inventory Taking Procedures states physical counts (for each location) are to be performed in January and July of each year, audit review of inventory counts between January and December 2014 indicated that the North Shop inventory was taken in December 2014, and the South Shop inventory count was performed in July 2014. No other counts for these locations were performed in calendar year 2014.

Recommendation: Management should ensure that physical inventories for both North and South shop locations are performed on a bi-annual basis, in accordance with UA inventory procedures.

Response: Concur. UA Management has updated current policies and procedures relating to inventory to reflect annual inventory counts for both North and South shop locations. The full inventory count will be conducted annually on March 31st. In addition, UA Management will conduct triannual physical inventory counts on the top 100 moving items during the academic year on October 15, February 15 and May 15. UA Stores Procedures are updated.

C. Facilities Sign-Out Sheet

Audit testing indicated that 6 out of the 12 inventory issuances required a UA Facilities Sign-Out sheet. However, none of the sheets were completed. While UA inventory procedures indicate that inventory issuances should be documented on the UA Facilities Sign-Out sheet, management indicated that this practice is mainly for after-hours issuances, and typically not completed for issuances during normal business hours.

Recommendation: UA inventory procedures with regards to Facilities Sign-Out sheets should be updated to reflect current business practices. This will help to ensure that business practices are consistently complied with, and properly communicated to employees.

Response: Concur. UA Inventory procedures have been updated stating that the Facilities Sign-Out sheet are to be utilized for items checked out during off hours and are to be inputted by the next business day.

Purchasing and Receiving

A sample of 15 purchase transactions between January 2014 and November 2014 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.

Audit testing indicated that work orders and vendor quotes for purchases were adequately approved. Additionally, purchase requests were appropriately reviewed and approved. Also, requisitions were placed in the BruinBuy system by authorized UA employees within their approved purchasing authority limits. Further, all items physically received by the UA Storekeepers were accurately recorded in the Maximo inventory database and the BruinBuy purchasing system.

However, the following issues were noted:

A. Payment Delays

During audit testing, it was noted that for two selections, there was a two to three month delay between the date of the invoice and the date the payment was made to the vendor.

- In one instance, there was a three month delay between the invoice date (August 13, 2014) and the date of payment (November 17, 2014). Management indicated that for this invoice, the packing slip was not given to the storekeepers. The vendor inquired about the outstanding invoice, which spurred the subsequent delayed payment.

- In one instance, there was a two month delay between the invoice date (June 24, 2014) and the payment (August 23, 2014). Management indicated that the packing slip had been misplaced. Later on, a report was generated showing outstanding orders, at which time payment was made.

Recommendation: In order to ensure that timely payment is made to vendors and that expenses are accurately recorded, staff should be reminded to properly retain and forward packing slips for applicable purchases. In addition, the UA Accounts Payable Manager should continue with his daily review of the Hold and Incomplete (H&I) report to help identify outstanding invoices that have not been paid.

Response: Concur. The Maximo Application Administrator states that the current work processes have the ability to attach documents (purchase requisitions, price estimates, packing slips and invoices) to all purchase requests in Maximo. This will eliminate misplacement of any documents needed to properly process payment to a vendor. UA Management has reiterated to team members the importance of timely submission of packing slips and has implemented a three (3) day turn-around timeline to forward packing slips for processing. UA Accounts Payable Manager has updated Departmental Policies and Procedures to include the review of H&I reports at least once a week. In addition, the UA Contracts Administration Manager will run an aging report for any purchase orders issued in the event that a packing slip is missing so that Accounts Payable can contact the vendor for a copy of the packing slip and process the invoice in a timely manner.

B. Post Authorization Notifications (PANs)

Based on audit review of 15 purchase selections between January 2014 and November 2014, it was noted that while 13 PANs were reviewed by mandatory reviewers in a timely manner, 2 PANs were unread by a mandatory reviewer for 6 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: Concur. UA Management will add to quarterly UA Management meeting agenda to remind mandatory reviewers of UCLA Financial policy Section 3, F.1, "A reviewer must review a transaction within two working days of receipt." Current practice: Excluding weekends and holidays, on a monthly basis, the UA Business Officer analyzes PAN reviews for each UA Manager and notifies the UA Director of any justifications (i.e. vacation, sick, jury duty, etc.), discrepancies and/or PANs that have not been reviewed in a timely manner. Once the PAN report has been evaluated by the UA Director, he/she personally contacts each manager with unread PANs not meeting the policy timeline and reminds him/her to read the PANs in a timely manner in order to ensure that transactions are appropriate and accurate. Each academic year an electronic report is stored in the shared drive on the UA network for archival recording purposes.

Physical Security

Audit review included walk-throughs and tours of the North and South shops and paint rooms, in order to review controls and security camera surveillance in place to

safeguard physical inventory. Also, employee access to the North and South shops, paint rooms, and storage areas were reviewed for reasonability. Observations indicated physical security appeared adequate. Additionally, user access to Maximo was reviewed, to ensure that only appropriate individuals have access to the system.

No significant control weaknesses were noted.