FACILITIES MANAGEMENT

DESIGN & PROJECT MANAGEMENT

MATERIALS AND EQUIPMENT

AUDIT REPORT #18-2002

Audit & Advisory Services

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# Background

In accordance with the UCLA Administration fiscal year 2017-18 audit plan, Audit & Advisory Services (A&AS) performed an audit of the Design & Project Management (DPM) division of the Facilities Management (FM) department.

In February 2018, departmental units within FM were reorganized, DPM now represents one of seven major divisions within FM, and is responsible for the operation and oversight of Construction Design and Project Management to help facilitate major project delivery. During the audit period, the Landscaping & Grounds (L&G) unit and the Campus Recycling Program were a part of DPM, but are currently in the process of being transferred to the new Custodial & Grounds division. Other divisions within FM include Customer Relations, Finance, Maintenance & Alterations, Energy Services & Building Controls, and Information Technology.

The L&G staff provide a variety of outdoor maintenance services. Duties include grounds maintenance, irrigation management, exterior pest control, grounds conservation and preservation, landscape design review for capital projects, and maintenance of campus gardens and parks. Of the various units within DPM, the L&G unit makes the most extensive use of satellite storage and staging sites for its materials, supplies, and small equipment items needed for staff to carry out their duties. In addition to storage spaces allocated within the main FM (Cogeneration Plant) building, L&G maintains and utilizes storage areas at the Ornamental Horticulture Storage Building (the “Blue Goose”) and nursery by Parking Lot 15, Drake Stadium, Intramural Field, New Yard, North Athletic Field, Bunche Hall, and Perloff Hall. Personnel working within L&G are organized into four service units – North Campus, South Campus, West Campus, and Central Campus. As of April 5, 2018, L&G was comprised of 61 employees who are primarily responsible for landscaping and maintaining campus grounds.

The Energy Services & Building Controls divisions (formerly units within DPM) provide UCLA with reliable and cost effective energy resources. In addition, the Utilities staff of operating engineers maintain building chiller and HVAC systems, building control systems, all the campus pools and fountains and the 270 elevator and handicapped lifts on campus and in the Center for Health Sciences (CHS) building. Other critical services are maintenance, repair and upgrade of departmental equipment such as pneumatic tubes, autoclaves, medical gas and vacuum systems, compressed air systems, sensitive research equipment and emergency response. All tools and equipment purchases are processed through the Tool Crib and assigned to the engineers and shopkeepers. Materials, tools and equipment are stored in various areas around campus, including in multiple machine rooms.

As of April 5, 2018, the DPM division had 98 filled positions with an additional 15 new or vacant positions.

# Purpose and Scope

The primary purpose of the review was to ensure that DPM’s organizational structure and controls, and the related systems and procedures surrounding materials and equipment are conducive to accomplishing the department’s and University’s business objectives. The secondary purpose of the review was to evaluate the adequacy and efficiency of internal controls.

The scope of our engagement focused on the following areas:

Physical Security

Inventory of Materials and Supplies

Equipment Inventory

Equipment Disposal

Assigned Equipment and Tools

Information Systems

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and included interviews, tests, and other procedures considered necessary to achieve the objective.

Summary Opinion

Based on the results of the work performed within the scope of the audit, internal controls, including the related systems and procedures surrounding materials and equipment, were generally conducive to accomplishing the division’s business objectives. However, controls and business practices could be further strengthened by implementing the following:

*Physical Security*

Review the types of locks and keys securing storage areas that are accessible only to FM department personnel, and determine whether access should be made more restrictive.

Continue to coordinate with the Environment, Health & Safety department (EH&S) to minimize potential hazard conditions in storage areas and strengthen safety precautions.

*Inventory of Materials and Supplies*

Review departmental inventory procedures and documentation to ensure that inventory counts are properly completed, approvals are documented, and physical counts are conducted at least annually, where deemed appropriate.

*Equipment Inventory*

Investigate the location of the equipment item that could not be verified at the expected location, affix University property tags to the assets that do not have them (when practical), and ensure compliance with UCLA Equipment Management guidelines when conducting biennial inventory by physically locating and viewing each piece of equipment listed on the Asset Management System (AMS) inventory report to verify the accuracy of the official records.

*Equipment Disposal*

Ensure that supporting documentation from third parties are retained when disposing of equipment (when applicable), and continue to reinforce procedures to ensure that disposals are processed timely in AMS.

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

# Audit Results and Recommendations

## Physical Security

As part of audit test work, A&AS staff toured areas where materials and supplies used by DPM personnel are stored. Discussions were held with DPM management and staff to determine the adequacy of the physical security, organization of areas, inventory practices, and storage of materials, chemicals, and supplies. Observations were also made to see if any potential safety risks exist. The following were noted:

### Storage Areas - Physical Security

A&AS determined that the organization of areas, inventory practices, and storage of materials and supplies are generally adequate; however, physical security controls could be strengthened. For example, throughout the walk-throughs of 12 L&G storage areas, A&AS learned that the “X48” key is used to open the padlock securing a fenced section within Drake Stadium, which contains landscaping tools, equipment, and supplies. This type of key and lock provides a low level of security because it is widely used across multiple locations on the Campus. Staff of the FM Hardware Shop stated that 488 “X48” type keys have been created since 1990 when the “X48” key was first circulated. This key type only works with the 239 padlocks currently in circulation within FM. Sign-out logs are maintained to keep track of items, and only L&G management and employees can enter the fenced section of Drake Stadium.

A&AS was also advised that a CHS machine room, where mostly HVAC, pump and refrigerant materials are stored, is kept open during business hours and no surveillance cameras monitor the area. In addition, there are no sign-out logs used for materials, no periodic physical inventory counts of the items maintained, nor do current inventory records exist to document all items that should be at the site at any particular point in time. A&AS became aware of an incident that occurred in the past where a former FM employee had been taking materials from the CHS machine room without prior consent. The employee was subsequently identified because the individual was viewed also taking materials from another storage area that had security cameras installed. Even though there are no physical inventory counts or a list of what should be located within the CHS machine room, management stated that they are aware of the materials being used based on the jobs the engineers are working on, and MAXIMO (a work order system) is used by engineers to charge the materials used on jobs.

According to Business & Finance Bulletin BUS 54, Operating Guidelines for University Supply Inventories, “Adequate safeguards should be provided to protect University supply inventories from pilferage or other loss.” Having an appropriate level of physical security over the storage areas is important to safeguard university property, but that also balances operational needs. For storage areas with few physical access controls, having an appropriate security camera system properly installed could assist management in both theft deterrence and the identification of those responsible in the event of loss or theft.

Recommendation: Management should review the types of locks and keys securing storage areas that are accessible only to FM department personnel, and determine whether access should be made more restrictive. To strengthen the controls of storage areas that are maintained open during business hours, management should consider installing an appropriate security camera system.

Response: Management concurs with the assessment regarding the condition of the security cameras used to monitor Grounds Division storage areas and has begun working with the Facilities Management Alarm shop to execute replacing them. Management is targeting January 2019 for the work to be complete. Management has reviewed the padlocks being used to secure Grounds Division storage and has begun to work with Facilities Management Hardware shop to exchange them with padlocks keyed only for Grounds Division Personnel. The padlocks will be changed by November 28, 2018.

### Storage Areas – Safety Risks

A&AS observed whether any potential safety risks exist in the storage sites that were toured during the audit. The following concerns were noted:

The annual maintenance for a fire extinguisher located at the Blue Goose appeared to be overdue by more than eight years.

Two fire extinguishers, located at Central Grounds and the Perloff Hall Compactor Area, were not mounted on brackets or in wall cabinets.

More than three cabinets with flammable liquids are located in a single storage area at Central Grounds, which would be acceptable in an indoor storage area that meets the required fire-resistive rating for its use; however, A&AS was unable to determine whether the storage area meets applicable safety requirements.

The Occupational Safety and Health Administration (OSHA) Extinguisher Placement and Spacing guidelines indicate that in order “to prevent fire extinguishers from being moved or damaged, they should be mounted on brackets or in wall cabinets with the carrying handle placed 3-1/2 to 5 feet above the floor. Larger fire extinguishers need to be mounted at lower heights with the carrying handle about 3 feet from the floor.” Also, the OSHA Safety and Health Regulations for Construction standard number 1926.152 “Flammable Liquids” indicates that no more than three storage cabinets with flammable liquids may be located in a single storage area. It further states that “quantities in excess of this shall be stored in an inside storage room,” and that “inside storage rooms shall be constructed to meet the required fire-resistive rating for their use.” Management indicated that inspections of storage sites are performed by EH&S annually.

Recommendation: Management should continue to coordinate with EH&S to minimize potential hazard conditions in storage areas and strengthen safety precautions. The above issues related to the fire extinguishers and storage of flammable liquids at Central Grounds should be reviewed with EH&S to ensure FM is in compliance with OSHA regulations.

Response: Management had the identified fire extinguishers serviced and has ensured that each is properly mounted. They are now in compliance. Management has also reviewed Central Grounds flammable liquid storage with EH&S and made corrections as noted. This item is resolved.

## Inventory of Materials and Supplies

### Physical Inventory of Materials and Supplies

A&AS could not verify when the last physical inventory of materials and supplies was conducted for six L&G storage sites that were toured because information regarding when the last inventory was performed could not be provided by FM management; however, management did provide tool inventory documentation for six other sites that were not toured. The 16 quarterly inventory count sheets provided covered dates ranging between September 2011 and September 2013. These count sheets were reviewed for completeness, supervisory review, and approval. Based on our review, the following were noted:

The signature of the employee performing the inventory is missing on five count sheets;

The supervisor's printed name is missing from one count sheet;

The supervisor's signature is missing on all 16 count sheets;

The quantity of items counted was inconsistently recorded and the quantity field for all items is marked with a zero or higher in five count sheets, but a value was not entered for certain items in the 11 other sheets;

The last physical inventory was conducted in 2013.

Additionally, management stated that the written procedures for conducting the departmental inventory are not up to date.

According to the UCLA Policy 360 “*Internal Control Guidelines for Campus Departments*,” a physical count of inventory should be taken annually, and management shall be advised of significant inventory discrepancies. Effective inventory controls may assist management maintain a balance of the items on hand to make informed decisions, and identify shrinkage caused by theft, damage or other types of loss.

Recommendation: Management should review the departmental inventory procedures and documentation to ensure counts are properly completed, that supervisory review and approval is clearly documented, and that physical inventory counts are conducted at least annually, where applicable.

Response: Management is currently working to improve equipment inventory oversight including development of better written procedures and documentation systems. Management will conduct an inventory by January 14, 2019, and ensure that inventories are conducted annually thereafter.

### Storage Room Tool and Equipment Distribution

Discussions were held with management and staff members about DPM procedures and business practices used to distribute tools and equipment to employees from storage rooms, and to ensure that they are returned timely after their use. Examples of L&G Daily Tool Equipment Sign-out Sheets and Vehicle Inspection Sheets used at Central Grounds were reviewed. Inspections are performed when checking L&G vehicles in and out and employees at Central Grounds are required to return tools and equipment at the end of their shift. If the doors to Central Grounds are locked, employees can drop off the items in a box outside the building with an attached report. With the exception of the Blue Goose and a CHS machine room where various University employees can enter, access to storage areas is restricted to a limited number of individuals. Therefore, even if sign-out logs for distributed tools and equipment are not maintained in all areas, items can only be utilized by authorized employees.

There were no significant control weaknesses noted in this area.

## Equipment Inventory

### Biennial Equipment Inventory

Documentation relating to DPM physical inventories conducted by FM Materiel Management for inventorial equipment were reviewed to verify that physical counts were actually performed and have been conducted within the past two years. Inventorial equipment is defined as a tangible, non-expendable stand-alone item acquired for $5,000 or more, and that has a normal life expectancy of more than one year. AMS is an online system used to manage department inventorial equipment for the campus. Based on the review of equipment certification letters, AMS reports, and an Annual Equipment Inventory memorandum, A&AS verified that physical annual inventory counts are conducted for the entire FM department, which exceeds the biennial equipment inventory requirement for the campus.

There were no significant control weaknesses noted in this area.

### Equipment Physical Inventory

A sample of 15 equipment items was selected from the AMS Inventory Listing by Custody Code reports to test the existence of the items, and to verify that the following recorded information is accurate:

University property tag identification number

Serial number

Location

Any discrepancies in location or security issues were taken into account during the walk-throughs. The sample included equipment items under both DPM custody codes, as of January 31, 2018. Also, a sample of 23 equipment items from the storage sites were selected to verify that they are included in AMS, the information is accurate, and that they are in the custody of FM. The inventory observations were led by the Grounds Superintendent, Grounds Supervisor, and the Stores, Warehouse & Material Manager, who also is the FM Equipment Custodian.

A&AS could not reconcile all of the physical test items with the information contained in the inventory listing. Based on all 38 equipment items selected for testing, the following were noted:

One item could not be physically located and verified. Inventory records show that the asset was located at Drake Stadium on October 20, 2017. According to management, some equipment items from that location were recently transferred to the North Athletic Field (NAF), but the sampled item could not be located there on the date A&AS performed testing.

The AMS information of one item was inaccurate. The serial number was not included in the AMS records, and the description and location did not match. Management stated that the record would be corrected.

In 11 instances, items selected from the storage sites were not included on the AMS listings. At the time of the audit, FM management was not able to provide information on whether these items should be inventoried based on their dollar value.

A&AS was unable to locate a University of California property tag number on 27 items; however, the serial numbers did reconcile with 18 of these items. According to management, the property tags fall off from certain types of equipment due to frequent outdoor use and pressure washing.

It is important to note that not all equipment selected from the storage sites qualify as inventorial (based on dollar value), which would explain why some items did not have a property tag and were not listed in AMS.

Recommendation: Management should investigate the location of the asset that could not be verified at the expected location, and update the official records accordingly. Management should also request new University property tags and affix them, when practical, to the assets identified above. In addition, management should ensure compliance with UCLA Equipment Management guidelines when conducting its biennial inventory by physically locating and viewing each piece of equipment listed on the AMS inventory report to verify the accuracy of the official records. Further, the 11 items that were not included on the AMS listings should be further examined to determine whether they should be included on the inventory or not.

Response: The alleged missing equipment item does not have a corresponding description therefore management cannot verify if it is actually missing. However, Management will request new University property tags and affix them to Grounds’ assets by January 14, 2019. Also, Management is currently working to update the official records with the locations of assets and ensuring compliance with UCLA Equipment Management guidelines. Management will conduct an inventory by physically locating and viewing each piece of equipment listed on the AMS inventory report to verify the accuracy of the official records by November 28, 2018.

## Equipment Disposal

The AMS equipment disposals report obtained for DPM custody codes shows that four items were disposed of in fiscal year 2016-17. All four pieces of equipment were selected for testing to verify that:

Each disposal was properly completed, reviewed, and approved in AMS.

Adequate supporting documentation exists to substantiate the proper disposal of the items.

A review of the AMS detail reports indicate that all disposals were properly completed, reviewed, and approved in the system. Internal campus records were maintained for each item processed, but A&AS could not verify that two of the four assets were actually disposed of due to insufficient supporting documentation from the scrap dealer. In one instance, records indicate that the process for disposing of capital equipment was not followed, which resulted in recording the transaction in AMS after the fact. The Equipment Custodian informed management of the occurrence to ensure DPM reinforces disposal procedures going forward.

Recommendation: Management should continue to reinforce compliance with disposal procedures to ensure that inventorial equipment disposals are processed timely in AMS. When applicable, management should also ensure that supporting documentation from third parties, such as scrap dealers, is maintained to provide an adequate audit trail of the disposal transactions. Maintaining complete supporting documentation of disposals is an important internal control because it validates the information reported in official campus records and reduces the risk of undetected loss.

Response: Management will continue to reinforce compliance with disposal procedures and maintain complete supporting documentation of disposals.

## Assigned Equipment and Tools

Discussions were held with management and staff regarding the procedures to sign-out tools and equipment to individual DPM employees, report lost or broken items, and to return items upon separation or transfer to another department. An example of a FM New/Lost/Stolen Tool Request Form, an FM Off-Boarding Collection Form, and a list of items assigned to a former division employee were also reviewed. In addition, controls to safeguard employee tools from loss or theft were observed during the tours.

The form used by the Utilities unit employees to request new tools and report lost or broken equipment requires a justification and the approval from a supervisor and the DPM Director or an Assistant Director. When assigned tools are not in use, employees properly safeguard them by storing them in locked metal cabinets. When Utilities employees separate or transfer to another department, employees are responsible for returning all assigned tools back to the FM Tool Crib. As part of the off boarding collection process, individuals are given a list of assigned items, such as tools, keys, and laptops, that must be turned in to the appropriate FM unit. The supervisor or department representative of each unit signs off attesting that the items were collected.

There were no significant control weaknesses noted in this area.

## Information Systems

A&AS requested and received a listing of all active FM AMS users, filtered by custody codes assigned to DPM. Based on the user listing, the equipment custodian who maintains AMS records for the entire department is segregated from the listed department approvers. In addition, during the annual physical inventory of equipment, the custodian coordinates with each unit and utilizes an outside contractor to assist with the physical inventory counts. Each unit is responsible to match up their assigned existing physical inventory with the inventory records provided by the custodian. A&AS found no significant control issues over separation of duties, both in terms of maintaining the equipment records within the AMS system, and conducting the annual physical inventory department wide. Multiple parties are involved and have different responsibilities related to equipment inventory.

There were no significant control weaknesses noted in this area.

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