

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

April 29, 2015

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

Re: Facilities Management – Key Security Audit Report #15-2004

Enclosed is the audit report covering our review of internal controls and procedures governing key maintenance and security utilized by the Facilities Management (FM) department.

The primary purpose of the audit was to ensure that Maintenance and Alteration's organizational structure and controls related to key security are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit focused on the following areas:

- Issuance Business Practices for Master, Sub-Master, and Off-Master Key Rings
- Monitoring and Physical Security of Master and Sub-Master Key Rings, and Vehicle Keys
- Return Business Practices for Master and Sub-Master Key Rings

Based on the results of the work performed within the scope of the audit, FM's internal controls and related procedures governing key security are generally adequate and effective to help accomplish their business objectives. However, management could further strengthen controls by implementing the following:

- Management should ensure that electronic master key ring issuance records are accurate, complete, and maintained on a current basis.
- Returning master key rings immediately to the Key Shop upon employee separation.
- Promptly returning master key rings to the Key Shop when an employee is on an extended leave and issuance records are appropriately updated.
- Management should ensure that requests for keying changes have evidence of approval from the appropriate department head prior to key issuance.
- Accounting for scrap keys from the initial scrap determination through final disposition, and ensuring that appropriate documentation is maintained to support any proceeds received and deposited.
- Management should ensure an annual physical inventory of all master key rings is conducted and appropriately documented.
- Obtaining current Building Entrance Key Coordinators and Departmental Key Request Authorization lists to ensure compliance with UCLA Procedure 825.1, Building Entrance Keying and Control.

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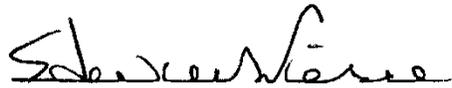
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- Notifying the Key Shop in a timely manner whenever an employee that has been issued a master key ring changes department cost centers.

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
KEY SECURITY
AUDIT REPORT #15-2004

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KEY SECURITY
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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 governing key maintenance and security utilized by the Facilities Management (FM) department.

Within FM's Maintenance & Alterations (M&A) division, the Key Shop (aka Hardware Shop) is responsible for key administration. This includes maintaining up-to-date master key ring (MKR) issuance records, fabricating and issuing keys, performing lock work, etc. The purpose of key security is to provide optimal physical security and safety for building occupants, effective control of campus facilities, and protection of University assets.

Within a typical master keying system group, there can be up to 7,500 different key cut combinations made within that group. The group contains a master key and sub-master keys. The sub-master keys open a subset of the master key's group. When off-master keys are approved and issued, the master and sub-master keys will not open those locks. However, there is a super-master that will open all locks within a group. Super-master keys are never issued and are maintained under stringent physical security measures.

Master key systems are utilized for several reasons including convenience, organizational efficiency, theft deterrence, and limiting access.

Master keying systems allow authorized users to use one key, instead of sorting through multiple keys, to gain access to multiple spaces or a pre-determined set of

spaces within a facility. Master keying also provides management information as to who has access to which spaces at each facility.

Purpose and Scope

The primary purpose of the audit was to ensure that M&A's organizational structure and controls related to key security are conducive to accomplishing its business objectives. Where applicable, compliance with University policies and procedures was also evaluated.

The scope of the audit included the following activities:

- Issuance Business Practices for Master, Sub-Master, and Off-Master Key Rings
- Monitoring and Physical Security of Master and Sub-Master Key Rings, and Vehicle Keys
- Return Business Practices for Master and Sub-Master Key Rings

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, FM's internal controls and related procedures governing key security are generally adequate and effective to help accomplish their business objectives. However, management could further strengthen controls by implementing the following:

- Management should ensure that electronic MKR issuance records are accurate, complete, and maintained on a current basis.

- Returning MKRs immediately to the Key Shop upon employee separation.
- Promptly returning MKRs to the Key Shop when an employee is on an extended leave and issuance records are appropriately updated.
- Management should ensure that requests for keying changes have evidence of approval from the appropriate department head prior to key issuance.
- Accounting for scrap keys from the initial scrap determination through final disposition, and ensuring that appropriate documentation is maintained to support any proceeds received and deposited.
- Management should ensure an annual physical inventory of all MKRs is conducted and appropriately documented.
- Obtaining current Building Entrance Key Coordinators and Departmental Key Request Authorization lists to ensure compliance with UCLA Procedure 825.1, Building Entrance Keying and Control.
- Notifying the Key Shop in a timely manner whenever an employee that has been issued an MKR changes department cost centers.

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

Audit Results and Recommendations

Issuances and Returns

Interviews were conducted with FM personnel and the Key Shop's Supervising Locksmith to obtain an overview of MKR issuance and return procedures, and related activities. Fieldwork discussions were also conducted to obtain detailed information for MKR issuance and return processes, and work rules. UCLA Policy 825, Key Administration and Control, and UCLA Procedure 825.1, and FM's Master Key Ring Guidelines were reviewed to obtain an understanding of existing requirements.

The Key Shop's electronic MKR issuance list was reviewed to identify the adequacy, accuracy and completeness of information. From the issuance list, a sample was selected that included requests for the issuance of MKRs, keys to be added to an MKR, and keying changes for existing installed locks. Each request was reviewed for appropriate approval and justification. Observation was performed of the issuance of custodian sub-MKRs to determine operational efficiency and effectiveness of the process. The electronic MKR issuance list was compared to the Campus Data Warehouse (CDW) payroll database to identify staff separations, extended vacations and/or leaves of absence to verify timely return of MKRs to the Key Shop. Supporting documentation was obtained and evaluated to facilitate audit testing, as necessary.

A. Master Key Ring Issuance List - Data Errors

A&AS obtained and reviewed an electronic MKR issuance listing provided by Key Shop personnel. The listing is organized by department cost center and includes over 900 line items, each containing one or more identification numbers that relate to the MKRs that have been issued. As an initial step, A&AS performed some basic sorts of the issuance data (by employee name and by University Identification Number (UID)) to identify any potential anomalies. The campus OASIS system was then utilized to confirm whether employees were currently active, whether employees listed with the same name were duplicate employees,

and whether different employee names listed with a single UID were legitimate. From the initial review of the MKR issuance listing, A&AS selected a sample of 27 issuance records that appeared to have some discrepancies in the data. Of the 27 issuance records reviewed, the following items were identified:

- In three instances, two records were issued with the same university identification number but for different employee names.
- In two instances, there were records for employees who had separated.
- In one instance, an employee was listed with two identical records.
- In one instance, an employee was issued records with two different university identification numbers.
- In one instance, the same MKR number was issued for an employee under different cost centers.
- In two instances, an employee's name was spelled differently in the two records where it appeared.
- In one instance, an employee's name was listed on three records, but only one record included a middle name.
- In one instance, a record was issued with only six of the nine digits of the university identification number.

By not maintaining accurate MKR issuance records, appropriate tracking, monitoring and accountability for MKRs is inefficient and increases the risk of misappropriation of university assets and unauthorized access to restricted and/or sensitive campus areas.

Recommendation: Management should ensure that all electronic MKR issuance records are accurate, complete, and maintained on a current and timely basis. By doing so, management will strengthen its control over university assets, campus buildings and other areas operated, owned and controlled by the university.

Response: We concur with the Auditor's recommendation. The Department is digitalizing the information to increase accuracy of these records. The new system will allow scanning of the employee's badge to update into the database. The primary field will be the University Identification to minimize duplication of information and ease of record retrieving. Additionally, training will be provided to employees working on the database to ensure that the information is being inputted correctly as well as for consistency. The new database will allow the Department to run reports to review the data for errors.

This program is being accomplished in multiple phases. First phase involves the cleaning of the records, such as removing duplicate transactions, correcting erroneous data, etc. This phase will run parallel with the MKR physical audit. The physical audit will be implemented in two parts. First part which covers half of the FM MKRs will be completed by November 2015. The second half will be completed by June 2016.

This information is currently tracked in an Excel Database. The second phase will include uploading this information into a digital database that is linked with the SiteSecure Database System that tracks all keys on Campus. Additionally, this phase will have an electronic Key Issuance Card where employees will be able to sign off their keys with the swipe of the badge. This portion is slated to be completed by July 2016.

B. Master Key Ring Return – Employee Separation

MKRs are not always being returned to the Key Shop on a timely basis after an employee separates from the FM department. One of five items tested showed that the MKR was returned 46 days after the employee separated. Based on the documentation reviewed, it is unknown who had physical custody of the MKR between the employee's separation date and the date the MKR was returned to

the Key Shop. By not returning MKRs timely, University assets that are secured by those master keys are at risk of loss or misappropriation.

Recommendation: Management should ensure that all MKRs are returned immediately to the Key Shop when an employee separates. The department's separation process for employees that have been issued MKRs should require prompt written notification to the Key Shop to enable monitoring of the timeliness of MKR returns.

Response: We concur with the Auditor's recommendation. The Department is in the process of updating their Separation/Employee Transfer Form. Currently, an older version of this form is being used by M&A; however, the form is being updated to include other areas within FM. The draft of the new/updated form is scheduled to be completed by April 30, 2015. Final version is scheduled to be completed by May 8, 2015. Implementation of this form is scheduled for May 15, 2015.

C. Master Key Ring Not Returned – Employee Extended Leave

Two FM employees did not return their MKRs when they were on an extended leave from work. According to the MKR electronic database provided by FM, the employees retained possession of their MKRs while on leave even though FM work rules require them to be returned during an extended leave of three weeks or more. The two employees noted were on leave from May 24, 2014 to August 2, 2014, and October 26, 2014 to November 22, 2014, respectively.

Recommendation: Management should ensure that when an employee is on an extended leave, predetermined or otherwise, the employee's assigned and issued MKRs are promptly returned to the Key Shop and all issuance records are appropriately updated.

Response: We concur with the Auditor's recommendation. The Department will be training and retraining all managers to ensure that this process is applied consistently throughout FM. M&A will complete the refresher training with all their managers on April 16, 2015. All other managers in FM will be trained by June 30, 2015.

D. Keying Change Approvals

Of 15 items tested, 5 involved requests for re-keying services. A&AS review noted that none of the five requests for keying changes were supported by evidence of department head approval, as required. UCLA Policy 825.II.D provides that locks may not be changed without the prior approval of the department head.

Recommendation: Management should ensure that all requests for keying changes have evidence of approval by the appropriate department head before services are rendered. This documentation should be maintained as part of the Key Shop's key administration and control records.

Response: We concur with the Auditor's recommendation. Policy 825 and supporting policies are being updated and first draft is scheduled to be presented to AVC by April 30, 2015. FM aims to reissue the policy to the entire Campus on July 1, 2015. Additionally, the new policy will be reviewed during the Building Coordinators (BC) Meeting so that FM's Clients are aware that Department will be upholding this policy consistently throughout Campus. The BC meeting will take place during first quarter of fiscal year 2015-16.

Storage and Physical Security

Interviews and fieldwork discussions were conducted with the Key Shop's Supervising Locksmith to obtain an overview of MKR storage. Aspects of off-master room access were reviewed to determine adequacy for fire, life and safety purposes. Observations

were performed of selected MKR storage lock boxes to identify individual accountability over each MKR within each lock box. Physical security over FM vehicle keys was also assessed. For obsolete keys and other Key Shop metal deemed by FM to be scrap, A&AS assessed supporting documentation to determine its proper final disposition.

A. Scrap Key Recycling and Final Disposition

FM did not maintain appropriate supporting documentation of the proceeds received from the recycling vendor supporting the sale of the Key Shop's scrap metal. Information requested from the department for review included a copy of the check received from the vendor and the departmental deposit slip, dated invoice/receipt for the pick-up of the scrap metal, the General Ledger account number, fund number and cost center that the proceeds were deposited to and any other relevant information as deemed necessary. Because FM did not maintain this information on site, M&A staff had to request the pertinent information be provided by the vendor. By not maintaining appropriate documentation for the sale of university scrap metal within the department, FM cannot ensure timely access and recovery of important evidence supporting sale proceeds.

Recommendation: Management should ensure that all scrap university property is accounted for from initial scrap determination through final disposition. Appropriate documentation should be maintained to support the proceeds received and deposited from the sales of scrap to maximize accountability and controls.

Response: We concur with the Auditor's recommendation. The Department has re-implemented a tracking system to ensure that the checks are closely monitored. Once the Department receives the check, it is copied, information is inputted to a database, and original is given to Accounting Manager for deposit. Copies of checks are maintained within Department for reference. This process was jump started during 3rd quarter of Fiscal Year 2014-15.

Monitoring

Interviews and fieldwork discussions were conducted with the Key Shop's Supervising Locksmith to obtain an understanding of the periodic MKR inventory process. UCLA Policy 825 and UCLA Procedure 825.1, and FM's Master Key Ring Guidelines were reviewed to obtain an understanding of existing requirements. In addition, A&AS reviewed the Key Shop's electronic MKR issuance list, when applicable.

A. Master Key Ring Periodic Physical Inventory

FM's Key Shop personnel have not performed a physical inventory of MKRs in approximately five years. UCLA Policy 825, states that FM is responsible for administration and control of keys. UCLA Policy 360, states that assets, which includes MKRs and everything they secure, shall be safeguarded against loss and unauthorized use and disposition. Policy 360 is applicable to any inventory whose transfer, damage, disposal or loss would create serious consequences. By not performing a periodic physical inventory of MKRs, accountability over an essential control is not being adequately maintained.

Recommendation: Management should ensure that an annual physical inventory of all MKRs issued is conducted. These physical inventories should be performed by staff with delegated accountability, be appropriately documented, and certified as being accurate and true.

Response: We concur with the Auditor's recommendation regarding the physical inventory of MKRs. This audit is expensive and uses many of our limited resources; therefore, instead of conducting an annual audit for the entire department, the physical inventory of all MKRs will be conducted over a two year period starting in 2015.

As of April 15, 2015, 90% of Custodial Services MKRs have been physically audited; the remaining 10% will be completed by May 15, 2015. Additionally, the MKR audits for the Plumbing Shop and South Zone Engineers have been completed. North Zone Engineers MKR audit is slated to be completed by November 2015.

During 2016, the Department will physically audit the remaining Crafts (i.e., Paint Shop, Electrical System Unit, Sign Shop, etc.) This portion is scheduled to be completed by June 2016. During 2017, all areas that were audited in 2015 will be audited again. The areas that were audited in 2016 will be audited in 2018 and so forth.

B. Required Key Control Lists

Two lists with critical key security information are not being provided to the FM Key Shop as required by UCLA Procedure 825.1. The Procedure requires the Key Shop to receive the following:

- An updated list of authorized Building Entrance Key Coordinators as personnel changes are made.
- A list identifying individuals in each department who are authorized to request keys.

By not obtaining the required lists from building clients, security of UCLA facilities is unnecessarily placed at risk. Moreover, the administration and control over keys is also rendered less effective.

Recommendation: Management should require appropriate personnel to contact all Building Entrance Key Coordinators and obtain the current Building Entrance Key Coordinator list and Departmental Key Request Authorization list. Taking action will enhance key controls to University facilities and bring FM into

compliance with UCLA Procedure 825.1. Once received, the lists should be utilized for validating that key requests are properly authorized prior to issuance. Additionally, Key Shop personnel should disseminate key administration and control information to appropriate campus staff to promote adherence to relevant policies and procedures and improve communication between FM and client departments.

Response: We concur with the Auditor's recommendation. Policy 825 and supporting policies are being updated and will be reissued to the entire Campus July 1, 2015. Additionally, the new policy will be reviewed during the Building Coordinators Meeting so that FM's Clients are aware that Department will be upholding this policy consistently throughout Campus.

C. Master Key Ring Cost Centers

The Key Shop is not being consistently notified when an FM employee that has been issued an MKR transfers to, or becomes part of a new and/or additional cost center. The cost center information is an element of master key ring issuance information and is used to track and monitor MKRs. By not receiving timely notification of changes to employee cost centers, tracking and monitoring of master key rings will be based on outdated information, and thus weakening MKR controls.

Recommendation: Management should ensure that when an employee that has been issued an MKR has any changes to existing cost center information, that the Key Shop is notified timely in writing. Controls over MKRs are strengthened when their related records are kept current.

Response: We concur with the Auditor's recommendation. The Department is in the process of updating their Separation/Employee Transfer Form. Currently, an older version of this form is being used by M&A; however, the form is being

updated to include other areas within FM. The draft of the new/updated form is scheduled to be completed by April 30, 2015. Final version is scheduled to be completed by May 8, 2015, and implementation of the new form and process by May 15, 2015.

The updated form and process will allow “out processing” of employees consistently throughout FM. Therefore, employees who are transferred from one cost center to another will have their MKRs turned into the Key Shop and checked out under the appropriate cost center.

Additionally, employees who are separated from University will have their MKRs submitted to Key Shop during the “out processing”. If the employee is not available, the manager will be required to submit the MKR into the Key Shop on behalf of the employee.