FACILITIES MANAGEMENT

MAINTENANCE & ALTERATIONS

MATERIALS AND EQUIPMENT

AUDIT REPORT #19-2004

##### Audit & Advisory Services

##### August 2019

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# Background

## In accordance with the UCLA Administration fiscal year 2018-19 audit plan, Audit & Advisory Services (A&AS) conducted an audit of internal controls over materials and equipment for the Maintenance & Alterations (M&A) division within the Facilities Management (FM) department.

M&A is comprised of 11 trade shops consisting of skilled and semi-skilled trades’ staff that are responsible for the maintenance, repair and restoration of University facilities. These services consist of minor construction, refurbishment and alterations up to $50,000. Examples of services provided include the following:

* Plumbing refurbishment and renovation
* Fire and intrusion alarm systems, high voltage, and electrical power
* Heating, ventilation, air conditioning, and refrigeration systems
* Elevators and conveyances
* Painting of exterior and interior walls and surfaces
* Concrete, brick, and tile work
* Key cutting and lock service
* Fabrication of ductwork, fume hoods, and other custom metal projects
* Minor roofing repairs
* Fabrication and installation of custom cabinets
* Installation of carpet and vinyl flooring
* Support for special events and emergency response

For fiscal year 2017-18, the M&A division (dept. code 3415) had revenue of $85.6 million and expenditures of $73.1 million.

## Purpose and Scope

The primary purpose of the review was to ensure that M&A’s organizational structure and controls, and the related systems and procedures surrounding materials and equipment are conducive to accomplishing its business objectives. Where applicable, compliance with campus and University policies and procedures was also evaluated.

The scope of the audit focused on the following areas:

* Physical Security
* Inventory of Materials and Supplies
* Inventorial Equipment
* Shop Tools
* Equipment Disposals
* Information Systems

The review 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, M&A’s organizational structure and controls are generally conducive to accomplishing its business objectives related to materials and equipment activities. However, controls and business practices could be further strengthened by implementing the following:

*Inventorial Equipment*

* Management should request new University property tags and properly affix them to the appropriate equipment as identified during the audit. Additionally, management should ensure that University property tags are physically observed, and verified on each piece of inventorial equipment during its physical inventory counts.

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

Audit Results and Recommendations

Physical Security

Interviews were conducted with M&A management and staff to determine existing physical security controls over materials and equipment inventory. With the assistance of M&A personnel, observations were performed of materials and equipment storage areas including FM vehicles; determine adequacy of physical security and access control; area organization; and any potential safety risks.

Materials and equipment are stored in FM-controlled areas with heavy steel doors and electronic locks requiring access codes. Industrial-grade lock boxes are installed on FM vehicles for items stored on trucks. Security cameras provide adequate coverage of indoor and outdoor storage areas, including the FM vehicle parking area. Keys to vehicles are maintained in electronic lock boxes inside the secure FM building of which only authorized management and staff are granted access. Portable equipment is stored in cages and/or locked cabinets within secure shop areas. During A&AS observations, no physical security access or safety issues were identified.

There were no significant control weaknesses noted in this area.

Inventory of Materials and Supplies

Discussions were held with FM shop staff to obtain an overview of inventory systems, practices, and controls over materials and supplies. Materials and supplies are items that are generally consumed within a year. Observations were conducted of materials and supplies storage areas to gain an understanding of inventory types and levels being maintained. Departmental inventory procedures were evaluated to determine adequacy. Physical inventory count data and supporting documentation provided by management were assessed to ensure completeness, proper review and management approval.

Physical inventory counts, variance analysis, and valuation are scheduled annually as part of the fiscal year-end closing process required by UCLA Corporate Financial Services. Departmental procedures provide for physical inventory count teams, accountability of physical count team staff, and proper valuation processes. A&AS determined that M&A’s physical inventory practices over materials and supplies are adequate.

There were no significant control weaknesses noted in this area.

Inventorial Equipment

Inventorial equipment is defined by University of California Policy BUS-29, “Management and Control of University Equipment,” in part, as follows:

* University holds title
* Non-expendable, tangible personal property acquired for $5,000 or more
* Freestanding, complete in itself
* Life expectancy of more than one year

From M&A management and staff, A&AS obtained an understanding of how inventorial equipment is administered. The 2018 “UCLA Property, Plant & Equipment Management Annual Inventory” certifications for M&A custody codes 1756 and 1872 were obtained from FM’s Stores and Materials Manager, and reviewed for completeness and timeliness. These certifications are management attestations for the performance of the physical inventory counts. A custody code is assigned to a custodial department for recording, tracking and monitoring inventorial equipment. A custodial department is an individual department or unit of a University location charged with responsibility over property in its care, control or custody.

University Property Tags

A judgmental selected sample of 20 inventorial equipment items from the Asset Management System (AMS) was selected for “sheet-to-floor” testing (comparison of documentation to actual item) and physical observation. The testing included verifying the following:

* Existence of the item
* Item has a University property tag
* Property tag ID number matches the equipment database record
* Serial number on the item matches the equipment database record

Additionally, “floor-to-sheet” testing (comparison of actual item to documentation) was performed by observing randomly selected inventorial equipment at various M&A locations to verify the items are properly recorded in AMS.

Based on the test work performed, 11 of 20 (55%) of items tested from sheet-to-floor did not have University property tags. Additionally, two of seven (29%) of items tested from floor-to-sheet did not have University property tags. By not ensuring that inventorial equipment have the required University property tags, management is not maintaining compliance with Policy BUS-29, nor adequately safeguarding assets.

Recommendation: Management should request new University property tags and properly affix them to the appropriate equipment as identified during the audit. Each property tag should be affixed to the equipment so that it is easily visible, such as next to the manufacturer’s nameplate. Management should also ensure University property tags are physically observed and verified on each piece of inventorial equipment during its physical inventory counts. If the property tag is accidently obliterated, defaced, or removed, management should promptly contact UCLA Equipment Management and request a replacement property tag.

Response: Agree. Facilities Management M&A has obtained and placed property tags on the 13 pieces of equipment that were identified. This is now ready for re-inspection and verification by the Audit Team.

Shop Tools

Surveys and questionnaires were submitted to M&A shop management to obtain information regarding shop tools. Survey responses included management-approved FM work rules governing use of university property, including tools and equipment. These work rules were evaluated for adequacy for proper tool and equipment issuance and return, utilization, and physical security. The FM tool request form was reviewed to determine that appropriate justification and approval are required, and accountability is maintained throughout the process. Tours of shop areas were conducted to observe tool utilization, storage, and physical security.

The FM work rules are applicable to all M&A shops and address unauthorized and personal use of university property, loaning, removing, and/or loss of university property, etc. The tool request form is used for new or replacement tools. The form has detailed instructions and requires a written justification, and wet signatures from the requesting employee, employee supervisor, and the area’s Director.

Most M&A tools and equipment are controlled by, and the responsibility of the FM tool crib. A&AS reviewed the tool crib operations in a separate audit. However, there are specialized tools that are controlled by the particular M&A shop that uses them. These tools and equipment are not made available to the general FM shop staff population. In these cases, the tools and equipment are maintained in a secure room, closet, or vehicle within the shop’s purview.

There were no significant control weaknesses noted in this area.

Equipment Disposals

M&A management and UCLA Equipment Management staff provided an overview of inventorial equipment disposal processes and procedures. The most recent 10 years of AMS equipment disposal data for M&A custody codes 1756 and 1872 were reviewed to determine the types of equipment disposed of and the frequency of disposition type. Disposition types include categories such as sold, trade-in, transfers, obsolete, etc. The ten year AMS disposal report for the above referenced custody codes contained 33 equipment disposals, of which seven (21%) were selected for testing. Detailed disposal information from AMS “Equipment Information Modification Request” (EIMR) forms for the selected sample items was evaluated to verify that disposals were properly completed, reviewed, and appropriately approved in AMS.

There were no significant control weaknesses noted in this area.

Information Systems – KeyWatcher Control System

A&AS held discussions with M&A management and administrative staff to obtain an understanding of the “KeyWatcher” key control system. KeyWatcher provides fingerprint-controlled key access, and utilizes proprietary software, fingerprint scanners, electronic key cabinets and key rings for control purposes. Audit testing was performed to verify authorized users are current M&A employees, and privileges granted are based on their job responsibilities. Management provided a list of current M&A users, including superusers. Superusers have special privileges assigned to them for administering and maintaining the system. Each M&A shop supervisor has been assigned specific privileges to maintain appropriate KeyWatcher access for their staff. The list of current users was reconciled to UCPath data to verify that current privileges granted are consistent with job responsibilities. A&AS also performed a review of departmental procedures for assigning and removing access privileges based on employee status to determine their adequacy.

There were no significant control weaknesses noted in this area.

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