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January 25, 2019

Dr. William A. Covino, President
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Dear Dr. Covino:

Subject: Audit Report 18-26, Facilities Management, California State University, Los Angeles

We have completed an audit of *Facilities Management* as part of our 2018 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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The California State University
Audit and Advisory Services

FACILITIES MANAGEMENT

**California State University,
Los Angeles**

Audit Report 18-26
December 20, 2018

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to facilities operations and to ensure compliance with relevant governmental regulations; Trustee policy; Office of the Chancellor (CO) directives; and campus procedures.

CONCLUSION

We found the control environment for some of the areas reviewed to be in need of improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below the operational, administrative, and financial controls for facilities operations as of November 9, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Our review indicated that facilities services (FS) did not have a process to ensure that costs for performing non-routine maintenance services were reimbursed. Specifically, FS did not always submit the appropriate journal entry to obtain the required reimbursement and did not have a process to verify that all submitted journal entries were fully reimbursed, such as a periodic reconciliation between FS and financial services activities. Additionally, FS was not complying with the established preventive maintenance (PM) task schedule for fixed equipment.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CHARGEBACKS

OBSERVATION

FS did not have a process to ensure that costs for performing non-routine maintenance services were reimbursed.

We reviewed 20 work orders and found that FS did not always recover the cost of its services, as required by Executive Order (EO) 847, *Policy Statement on Facility Maintenance*.

Specifically:

- For six work orders for non-routine maintenance performed for the campus, FS had completed the work but had not submitted the appropriate accounting documents (journal entry) to the business financial services department that would reflect the cost of services to be charged to the serviced entity.
- For one work order for non-routine maintenance, FS submitted a journal entry for only a portion of the chargeable amount.

We also reviewed five work orders that were open more than 180 days (referred to as long-outstanding work orders), and we found that in one instance, FS was not reimbursed for the cost of its services. Specifically, FS contracted with a third party to complete repair service for an outside entity that resides on campus; however, the service recipient was not billed.

In addition, we noted that FS did not have a process to verify that all submitted chargebacks were fully reimbursed, such as a periodic reconciliation between FS and financial services activities.

Adequate processes to ensure that FS costs are fully recovered may help to ensure that the campus operating fund is fully compensated for non-maintenance work performed for the campus and other support services provided to outside entities.

RECOMMENDATION

We recommend that the campus:

- a. Complete the procedures to obtain reimbursement for the cost of FS services for the instances noted above.
- b. Implement a process to verify that journal entries submitted for chargebacks are fully reimbursed and that services provided to all parties are timely billed.

MANAGEMENT RESPONSE

- a. FS is working with business financial services and will resolve the noted chargebacks.

- b. A process will be implemented to verify that journal entries submitted for chargebacks are fully reimbursed and that services provided to all parties are timely billed.

Date of completion: February 28, 2019

2. PREVENTIVE MAINTENANCE

OBSERVATION

FS was not complying with the established PM task schedule for fixed equipment.

As part of the established PM program, FS is responsible for maintaining certain assets on campus, including fixed equipment items. FS uses a computerized maintenance management system (CMMS) to manage identifying information for each asset/fixed equipment, the specific maintenance required, and the scheduled maintenance intervals, which were FS established when the asset/fixed equipment was acquired.

We reviewed the PM history of ten fixed equipment items and found that in four instances, FS did not service the equipment at the scheduled interval shown in CMMS. Specifically, FS performed the PM later or less frequently than the established PM task schedule indicated it should. We also reviewed 30 completed work orders of various types, and we found three related to PM for fixed equipment that were closed even though the required maintenance task had not been completed.

According to FS, the inability to comply with the established PM task schedule for fixed equipment was due in part to inadequate staffing and the need to prioritize certain scheduled tasks.

Adequate administration of the PM task schedule for fixed equipment provides assurance that equipment receive the service necessary to operate safely and properly, and may help to extend the equipment's useful life.

RECOMMENDATION

We recommend that the campus comply with the established PM task schedule for fixed equipment.

MANAGEMENT RESPONSE

Management will revise the process for preventive maintenance to meet the customer demand and align with the campus mission, including the updated PM task schedule. Staff will be trained to comply with the established PM task schedule for fixed equipment.

Date of completion: January 31, 2019

GENERAL INFORMATION

BACKGROUND

The need to protect the substantial public investment represented by California State University (CSU) facilities and grounds was brought to the forefront in the Legislative Analyst's Report on the 1979/80 state budget. Subsequently, the Legislature directed the CSU to implement a preventive maintenance program. As a result, the CSU has adopted directives, executive orders and technological tools to ensure that facilities-related assets are adequately maintained.

EO 847, Facility Maintenance, refines the standards in which campuses maintain CSU facilities. It provides clear definition of operations and maintenance, deferred maintenance, and capital renewal requirements to assure efficient and effective use of available maintenance funding. It also requires the university president to ensure that appropriate resources are directed toward meeting the requirement of proper operations and maintenance of the campus physical plant.

The Capital Planning, Design and Construction (CPDC) department at the CO maintains a space and facilities database (SFDB), a centralized system that provides information about capacity and facilities at each of the 23 campuses. It also provides details regarding custodial space and farm acreage on the campuses and contains information on each facility, including the condition, construction type, gross square footage, and master plan status. CPDC requires each campus to annually update its facility file in the SFDB; this information provides the basis for the capital outlay program, including funding for any required deferred maintenance, for the immediate and subsequent years.

In 2016, CPDC launched a multiyear plan to improve the quality of facilities data in multiple areas of development and operations. The plan included a new energy information system, which streamlined and improved campus monthly utility reporting; refinements in the reporting categories for self-support facilities such as recreation centers, public/private partnerships, and faculty/staff housing; and detailed facility condition assessments (FCA) to update, in a consistent manner, the estimated backlog of renewal needs. CPDC initiated a master enabling agreement with qualified firm to conduct the FCAs. As of November 2018, campuses have completed the process one is in the proposal stage with the vendor and one is outstanding. Information from the FCA reports will make campus reporting of facility conditions more uniform and allow CPDC to more accurately determine annual funding priorities to reduce the capital renewal backlog.

In recent years, funding appropriation challenges in the CSU system have affected facilities maintenance. Each year, CPDC must not only determine how much funding is necessary to maintain the 89 million square feet of facilities systemwide, but also identify, prioritize, and find funds for the backlog of deferred maintenance projects, which, as of 2018, has an estimated cost of \$3.7 billion dollars. The 2018 FCA for California State University, Los Angeles (Cal State LA) estimates that the campus will need \$448 million in facility renewal costs over the next ten years and that costs for immediate and critical needs are \$236 million.

The Cal State LA campus sits on 175 acres in a busy metropolitan area east of downtown Los Angeles. The campus operates and maintains more than four million square feet of buildings,

including 50 major facilities. Twenty-one of these buildings are more than 25 years old and were built between 1958 and 1993, including the State Playhouse Theater (1958), John F. Kennedy Library North (1969) and South (1956), and Student Health Center (1979). Newer construction projects include the University-Student Union (2007) and Annenberg Science Complex, consisting of La Kretz Hall (2007) and Rosser Hall (2010). In addition, the campus plans to develop in excess of half a million square feet of building space in the next five to ten years.

Cal State LA's FS department reports to the associate vice president of facilities, planning, and construction in the division of administration and finance, and its responsibilities include maintenance, repair, and construction efforts for all state-owned buildings campuswide. For auxiliaries and non-state buildings, such as parking and transportation, the Student Health Center, and Golden Eagle, FS enters into memoranda of understanding to document the scope of services provided. The FS staff includes skilled trades, grounds, and custodial staff, as well as administrative support.

SCOPE

We visited the Cal State LA campus from October 8, 2018, through November 9, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and operational controls are in place and operative. The audit focused on procedures in effect from July 1, 2016, through November 9, 2018.

Specifically, we reviewed and tested:

- Facilities management administration and organization, to determine whether it includes clear lines of organizational authority and responsibility, and current and comprehensive policies and procedures.
- The comprehensive planned/programmed maintenance schedule, to ensure that it captures all categories of maintenance, including routine, preventive, and deferred.
- The process by which the campus identified facility conditions, including deferred maintenance and capital renewal needs, and annually reported the information to the CO.
- Campus implementation of an effective computerized maintenance management system (CMMS) to ensure proper administration of maintenance tasks, including scheduling, cost management reporting, and productivity tools to account for resource utilization.
- Campus implementation of effective and efficient custodial and groundskeeping programs that include productivity and performance standards to ensure the work is performed in an effective and efficient manner.
- The campus process to ensure proper capture, tracking, and collection of costs for non-maintenance and auxiliary-related work orders.
- Campus implementation of an effective utilities tracking system to capture and report information pertinent to CSU goals for sustainability and energy conservation.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to,

resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology, which was designed to provide a review of key administrative and operational controls, included interviews, walkthroughs, and detailed testing on certain aspects of the campus facilities operations. Our review was limited to gaining reasonable assurance that controls were in place to identify and address facility maintenance needs, but did not assess the quality of any repair or maintenance tasks.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- EO 649, *Safeguarding State Property*
- EO 847, *Policy Statement on Facility Maintenance*
- EO 987, *Policy Statement on Energy Conservation, Sustainable Building Practices, and Physical Plant Management for the California State University*
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- Integrated California State University Administrative Manual (ICSUAM) §9047.01, *Space Facilities Database*
- ICSUAM §9170, *Energy Conservation and Utilities Management*
- Government Code §13402 and §13403
- Cal State LA Administrative Procedure 503, *Facilities Services Work Requests*
- Facilities Services Operating Procedure, *Work Orders*
- Cal State LA Administrative Procedure 212, *University Resource Allocation Plan*

AUDIT TEAM

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