

DESERT RESEARCH INSTITUTE
FACILITIES DEPARTMENT
Internal Audit Report
July 1, 2011 through February 28, 2013

GENERAL OVERVIEW

The Facilities Department is responsible for the general maintenance of the Desert Research Institute's (DRI) campuses in Reno and Las Vegas. The department is also responsible for custodial services, mail services, and the DRI Motor Pool. The Facilities Department has 27 employees and an annual operating budget of approximately \$4 million.

SCOPE OF AUDIT

The Internal Audit Department has completed a review of the DRI Facilities Department for the period of July 1, 2011 through February 28, 2013.

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included tests of the accounting records and other auditing procedures, as we considered necessary. The tests included, but were not necessarily limited to these areas.

1. Reviewing the operations of the Facilities Department and the physical security over the area.
2. Reviewing the controls over the institution's key card system.
3. Testing expenditures for reasonableness, supporting documentation, and proper signature approvals.
4. Examining equipment inventories for proper accountability.
5. Reviewing leave records, timesheets and contracts for proper completion and approval.
6. Reviewing elevator and other permits to determine whether they are current.

In our opinion, we can be reasonably assured that the Facilities Department is operating in a satisfactory manner. However, implementation of the following recommendations would further improve operations.

CONTRACTS

On occasion, agreements are entered into by or on behalf of the Facilities Department in carrying out its business operations. We examined a sample of four agreements that were active during the audit period. The agreements were reviewed for proper completion and adherence to the Nevada System of Higher Education (NSHE) contract policy. Of the four agreements reviewed, exceptions were noted with two lease agreements as provided below.

1. Two of the agreements included hold harmless clauses that did not meet the requirements of the NSHE contract policy. The clauses held the other parties harmless, but not DRI or NSHE.
2. One agreement required DRI to maintain insurance with outside companies. Such a requirement is not allowed under the system's contract policy as NSHE is self-insured.
3. One agreement did not list the Board of Regents as the contracting party as required.

For items one through three above, we recommend agreements be reviewed for proper content and adherence to NSHE contract policy.

Institution Response:

The DRI concurs with this recommendation. The contracts in questions were from previous years; subsequent agreements were routed through DRI's General Counsels representative in May/June 2013 in preparation for FY2014. The exceptions noted above were captured in the new agreements by DRI Legal Counsel, and the agreements are now in compliance. In the future, all contracts will be routed through legal counsel for compliance review prior to submission for signature and purchase order.

4. During this review, we noted that signature authority was delegated to a Facilities Department employee in 2004 that authorizes the employee to sign “certain facilities and facilities maintenance contracts”. The signature delegation references an outdated contract policy and was issued by an individual that is no longer employed at DRI. In addition, the extent of the signature delegation is unclear. As an example, both of the lease agreements mentioned above were signed by the Facilities Department employee. We were unable to determine whether this was appropriate under the signature delegation provided.

We recommend this matter be reviewed by DRI administration. If it is determined that signature authority should continue to be provided to the Facilities Department, we recommend that an updated delegation of signature authorization be completed. We also recommend the signature delegation be more specific as to the types of agreements that may be signed.

Institutional Response:

The DRI concurs with this recommendation. The Senior Vice President for Finance and Administration has tasked the Assistant Vice President/Controller to review all DRI signature delegations to ensure they are up to date and appropriate. After the Facilities Department delegation is finalized, the Facilities Department will comply with the signature delegation memorandum.

5. In preparing for this review, a list of Facilities Department agreements was requested from department personnel. We were informed the department does not maintain a list or keep copies of the agreements.

We recommend the Facilities Department consider keeping a list and copies of the agreements for which it is responsible for reference purposes.

Institutional Response:

The DRI concurs with this recommendation. A list will be maintained by the Facilities Department Business Office for Facilities-specific agreements (primarily maintenance contracts).

KEY CARD SYSTEM ADMINISTRATION

DRI utilizes two separate key card systems to control access to campus buildings. Each of the systems is maintained on a computer server that monitors the key card readers at the various access doors across the two DRI campuses. The Facilities Department is responsible for both the administration and management of the server hardware and software, the key card application, and the issuance and revocation of key cards to employees. We reviewed the procedures for administering the servers and noted the following exceptions.

1. One of the servers is not being updated with security patches and system updates.

We recommend the server be properly administered so it is updated with this information as it becomes available.

Institutional Response:

The server referred to in this finding has automatic security patches and updates deliberately shut off. This system is obsolete and will only run on Windows XP and pushed patches cause the system to go into fault. This server and its residing program/software will be decommissioned and removed by the end of fiscal year 2014. Thereafter, a single key card system will be used for DRI Facilities.

2. Neither of the servers is being backed up appropriately. A current backup does not exist for one server. The backup for the other server is being stored on the server.

We recommend that both servers be backed up in a manner that is consistent with best practices such as performing them on a regular schedule, storing them on different media, and maintaining them at an offsite location.

Institutional Response:

The server that does not have a current backup is the server referenced in finding #1, above. The server has been manually backed up, and will be decommissioned by

the end of fiscal year 2014. The backup for the second server referenced is stored on the server itself, as well as on external media. DRI concurs with the finding that the external media backup should be stored offsite, and has implemented a procedure for Facilities to place a copy of the backup file on a shared drive provided by the DRI IS Department that will be automatically backed up on both the Reno & Las Vegas systems.

3. As previously mentioned, the Facilities Department is responsible for the administration of the key card applications as well as the issuance and revocation of key cards. This situation does not provide for an adequate separation of duties. It also places responsibility for performing information technology related functions to a department that is not used to or does not have the expertise to perform them.

For improved control, we recommend that the server administration function be performed by the DRI Information Technology Department and that the key issuance and revocation function be performed by another department.

Institutional Response:

DRI concurs with this recommendation. Previously, the DRI IS Department provided support on an as requested basis; the server has now been reassigned to the DRI IS Department for routine support & maintenance.

EXPENDITURES

We reviewed 86 Facilities Department expenditures for proper supporting documentation, approval, reasonableness, and compliance with established purchasing procedures. The following exceptions were noted.

1. Twenty one transactions were not approved by an authorized account signer.

We recommend greater care be taken to ensure expenditures are approved by authorized personnel.

Institutional Response:

DRI concurs with this recommendation. The transactions were appropriately approved by the Facilities Manager for the Reno Campus; however the Facilities Manager was missing from the signature table. This has been corrected.

2. On one occasion, an Independent Contractor Agreement form was not used to document services provided to DRI.

We recommend the form be completed to properly document independent contractor transactions.

Institutional Response:

DRI concurs with this recommendation. The Facilities Department and the DRI Financial Services Office and/or Business Center North – Purchasing will ensure that the form has been properly completed.

CASH CONTROLS

The Facilities Department collects metal that is leftover from campus projects and sells it to recycling vendors. In reviewing a sample of four deposits that were made from recycling sales, two occasions were noted in which vendors issued payments in cash to DRI employees.

For improved control, we recommend the vendors be requested to process payments by check made payable to the Board of Regents. We also recommend the department maintain a log listing the date each recycling transaction occurs. We recommend the log be used to reconcile to the deposits that are posted in the financial accounting system.

Institutional Response:

DRI concurs with this recommendation. The referenced recycling events occur approximately two to four times per year. DRI will only accept checks, made out to the Board of Regents, for all future transactions. Any recycling transaction will be logged by the Facilities department.

PERMITS

The Facilities Department is responsible for maintaining a variety of permits related to the operation of DRI's buildings and grounds. In reviewing the permits the following exceptions were noted.

1. Evidence of backflow system testing, as required by the local water company in Reno, was not completed in a timely manner. We also noted that documentation showing submission of the testing was not maintained.

We recommend required testing be completed and submitted in a timely manner and that a copy of the testing submission be maintained by the Facilities Department.

Institutional Response:

The DRI Facilities Department always endeavors to complete all testing on time; emails from TMWA to DRI indicating compliance for all testing dating back to 2000 have been located and are attached to this response. DRI believes that notices in the file from TMWA requesting missing documentation from DRI were generated based upon an error by TMWA. DRI understands that TMWA has hired a new backflow administrator to remedy such situations. The DRI Facilities Department will continue to track and maintain records regarding timely testing of these systems.

2. While reviewing the Hot Work Permits on file in the Facilities Department, we noted a number of steps on the Required Precautions Checklist are typically not completed.

To help ensure proper insurance coverage in the event of an accident, we recommend the Hot Work Permit be completed in its entirety. If there are steps on the Required Precautions Checklist that do not apply to a particular project, we recommend the steps be marked as not applicable.

Institutional Response:

The DRI concurs with this finding. The Desert Research Institute Facilities Department will conduct a training session on hot work permitting to ensure everyone follows NSHE audit report suggestions.

MOTOR POOL

The Facilities Department oversees the DRI Motor Pool at both the Reno and Las Vegas campuses. The motor pool is available for use by any DRI employee. Employees are required to complete a usage log each time a vehicle is taken from campus. We reviewed three months of motor pool usage, as documented on the log, to determine whether the logs were properly completed. We also examined the fuel bills that corresponded to the three months of usage logs reviewed to determine whether the amount of fuel used was generally in agreement with the miles recorded on the logs. The following exceptions were noted.

1. On two occasions, the usage log did not include the project to be charged. DRI policy requires the project to be documented on the log each time a vehicle is used.
2. On three occasions, vehicles were not signed out when they were removed from campus for refueling.

For items one and two, we recommend employees be reminded to complete the usage log each time a vehicle is taken from campus.

Institutional Response:

DRI concurs with the recommendation and will endeavor to be sure each user supplies the required information. It is important to also note that current practice is for incomplete fields on the log sheets be researched at the time of monthly billing, and have been accurately completed for final billing documents.

3. While reviewing fuel bills, we noted the vehicles' mileage was recorded on the bills at the time they were refueled. For one vehicle, the mileage on the usage log was consistently less than the mileage on the fuel bill. The differences were significant with an 820 mile variance noted for one month. We were informed the mileage recorded on the usage logs is not periodically verified to the vehicle odometers for accuracy.

Accurate tracking of vehicle usage is important as usage is regularly charged to sponsored projects. We recommend the Facilities Department establish a process for periodically reconciling the usage logs to the vehicle odometers. Any inaccuracies that are noted should be reviewed to determine whether any adjustments to project charges are necessary.

Institutional Response:

The DRI concurs and will endeavor to monitor more closely. It is also relevant to note that since each user does not wish to pay for another's usage, the system also inherently self-checks in that a user who signs out a vehicle will verify that the mileage logged is correctly noted.

EQUIPMENT

A review of the equipment inventory assigned to the Facilities Department was performed to determine whether items listed on the equipment inventory report were physically present and whether there were other items that met the \$5,000 capitalization threshold that were not included on the report. Of the 47 equipment items reviewed, we noted two did not have an asset tag.

We recommend replacement tags be obtained from the Business Center North (BCN) Purchasing Department and affixed to the equipment.

Institutional Response:

The DRI concurs with this recommendation. The noted two pieces of equipment now have the requisite tags affixed.

TIME SHEETS

The time sheets of two hourly employees were reviewed for proper completion and approval. We also verified the work hours reported were accurate and in agreement with those

recorded in the human resources system. Of 80 time sheets reviewed, we noted the work hours recorded on 17 were calculated incorrectly.

We recommend greater care be taken by both employees and supervisors to ensure work hours are accurately stated.

Institutional Response:

DRI concurs with this recommendation. DRI utilizes a simple electronic timesheet program for professional Faculty and Staff that greatly reduces the chance of human error in completing timesheets. DRI is working on and will implement a similar electronic solution to help prevent errors for hourly worker timesheets. Timesheets for this audit period that resulted in overpayment were identified and are currently being corrected through a repayment process for those individuals.

LEAVE RECORDS

The leave records of two professional and two classified Facilities Department employees were reviewed for proper completion and to determine whether leave taken by employees was documented and approved on their timesheets. We noted one timesheet was not approved.

We recommend that timesheets be properly approved.

Institutional Response:

The DRI agrees with this recommendation. The Facilities Department shall endeavor to ensure every timesheet is properly signed, and will work with the Financial Services Office, in identifying any unsigned timesheet before final disposition.

OTHER

The following was noted during this review; however, it is the responsibility of DRI administration.

CONTRACTS

We noted DRI does not maintain a list of its non-sponsored project agreements and does not maintain these agreements in a central location. NSHE contract policy states copies of all contracts entered into by institutions must be kept in a secure and accessible location at the institution or at an established archive.

We recommend that DRI maintain a central location for storing agreements in accordance with the above policy. We also recommend a listing of such agreements be maintained.

Institution Response:

DRI agrees with this recommendation. This task has been assigned to the DRI Financial Services Office to develop and implement a central contract repository.

STATEMENT OF REVENUE AND EXPENDITURES

The statement of revenue and expenditures provided below is based on the activity of the six state and twelve self-supporting accounts that have been assigned to the Facilities Department. The information was obtained from the financial accounting system and is provided for informational purposes only.

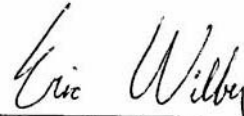
	State Account	Self Supporting Accounts	Total
Balance, July 1, 2011	\$ _____	\$ _____	\$ _____
Revenues			
State Appropriations	2,994,962		2,994,962
Indirect Cost Recovery		1,154,085	1,154,085
Total	<u>2,994,962</u>	<u>1,154,085</u>	<u>4,149,047</u>
Transfers Out		97,101	97,101
Expenditures			
Salaries	1,534,710	304,927	1,839,638
Travel		46,673	46,673
Operations	1,429,460	236,246	1,665,706
Activities		1,046	1,046
Equipment	35,356	2,543	37,899
Plant/Property		50,905	50,905
Total	<u>2,999,526</u>	<u>642,340</u>	<u>3,641,867</u>
Balance June 30, 2012	\$ <u>(4,564)</u> ¹	\$ <u>414,644</u>	\$ <u>410,079</u>
Balance July 1, 2013	\$ _____	\$ _____	\$ _____
Transfers Out		18,869	18,869
Revenues			
State Appropriations	3,093,412		3,093,412
Indirect Cost Recovery		1,046,373	1,046,373
Total	<u>3,093,412</u>	<u>1,046,373</u>	<u>4,139,785</u>
Transfers Out		18,869	18,869
Expenditures			
Salaries	856,649	182,792	1,039,441
Travel		39,002	39,002
Operations	1,102,873	385,373	1,488,246
Activities		495	495
Equipment	36,014		36,014
Plant/Property		10,894	10,894
Total	<u>1,995,536</u>	<u>618,557</u>	<u>2,614,092</u>
Balance April 30, 2014	\$ <u>1,097,876</u>	\$ <u>408,947</u>	\$ <u>1,506,824</u>

¹ This balance does not reflect that state funds were overspent. According to the DRI Office of Planning, Budget and Analysis, the institute's state accounts are combined and balanced at year end.

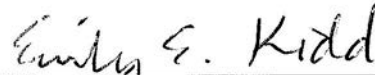
² The account balance is zero at July 1, 2013 due to DRI's practice of transferring excess funds to a reserve account at the end of each fiscal year.

The Internal Audit Department appreciates the cooperation and assistance received from the DRI Facilities staff.

Reno, Nevada
September 10, 2013



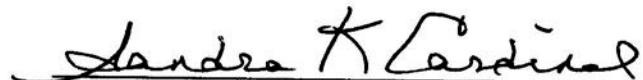
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