

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

768



FROM: Riverside County Auditor-Controller

SUBMITTAL DATE:
May 2, 2016

SUBJECT: Internal Audit Report 2015-006: Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division, [District: All]; [\$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Receive and file Internal Audit Report 2015-006: Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division

BACKGROUND:

Summary

We have completed an audit of the Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division to provide management and the Board of Supervisors with an independent assessment of internal controls over its preventive maintenance plan, oversight of non-capitalized assets, customer service follow-up, and contractor referral billing for projects. We conducted the audit from May 13, 2015 through October 15, 2015 for operations from July 1, 2013 through June 30, 2015.

(Continued on page 2)

Paul Angulo
Paul Angulo, CPA, MA
Riverside County Auditor-Controller

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	Consent <input checked="" type="checkbox"/> Policy <input type="checkbox"/>
NET COUNTY COST	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
SOURCE OF FUNDS: N/A				Budget Adjustment: No	
				For Fiscal Year: n/a	

C.E.O. RECOMMENDATION:

APPROVE

BY: *Samuel Wong*
Samuel Wong

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Ashley, seconded by Supervisor Washington and duly carried by unanimous vote, IT WAS ORDERED that the above matter is received and filed as recommended.

Ayes: Jeffries, Tavaglione, Washington, Benoit and Ashley
Nays: None
Absent: None
Date: May 24, 2016

Kecja Harper-Ihem
Clerk of the Board
By: *Kecja Harper-Ihem*
Deputy

Prev. Agn. Ref.: Auditor | District: ALL | Agenda Number:

2-3

Departmental Concurrence

- Positions Added
- Change Order
- A-30
- 4/5 Vote

SUBMITTAL TO THE BOARD OF SUPERVISORS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
FORM 11: Riverside County Auditor-Controller's Office - Internal Audit Report 2015-006: Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division, [District: All]; [\$0]

DATE: May 2, 2016

PAGE: Page 2 of 2

BACKGROUND:

Summary (continued)

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the preventive maintenance plan and oversight of non-capitalized assets. We determined Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division internal controls over customer service follow-up and contractor referral billing provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

We will follow-up in one year to determine if actions were taken to correct the findings noted.

Impact on Citizens and Businesses

Provide an assessment of internal controls over the audited areas.

SUPPLEMENTAL:

Additional Fiscal Information

Not applicable

ATTACHMENTS:

A: Riverside County Auditor-Controller - Internal Audit Report 2015-006: Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division

Internal Audit Report 2015-006

**Riverside County
Economic Development Agency
Facilities Management
Maintenance Service Division**

Report Date: May 2, 2016



**Office of Paul Angulo, CPA, MA
Riverside County Auditor-Controller
4080 Lemon Street, 11th Floor
Riverside, CA 92509
(951) 955-3800**

www.auditorcontroller.org



COUNTY OF RIVERSIDE
OFFICE OF THE
AUDITOR-CONTROLLER

County Administrative Center
4080 Lemon Street, 11th Floor
P.O. Box 1326
Riverside, CA 92502-1326
(951) 955-3800
Fax (951) 955-3802

ACC | **AUDITOR**
CONTROLLER
COUNTY OF RIVERSIDE

Paul Angulo, CPA, MA
Auditor-Controller

Frankie Ezzat, MPA
Assistant Auditor-Controller

May 2, 2016

Robert Field
Assistant CEO/ EDA
EDA, Facilities Management, Maintenance Service Division
3403 10th Street, Suite 400
Riverside, CA 92501

Subject: Internal Audit Report 2015-006: Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division

Dear Mr. Field:

We have completed an audit of the Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division to provide management and the Board of Supervisors with an independent assessment of internal controls over its preventive maintenance plan, non-capitalized assets, customer service follow-up, and contractor referral billing for projects. We conducted the audit from May 13, 2015 through October 15, 2015 for operations from July 1, 2013 through June 30, 2015.

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, reliable, relevant, and useful information to provide reasonable assurance that our objective as described above is achieved. An internal audit includes the systematic analysis of information to evaluate and improve the effectiveness of internal controls. We believe this audit provides a reasonable basis for our conclusion.

Internal controls are processes designed to provide management reasonable assurance of achieving efficiency of operations, compliance with laws and regulations, and reliability of financial and non-financial information. Management is responsible for establishing and maintaining adequate internal controls. Our responsibility is to evaluate the internal controls.

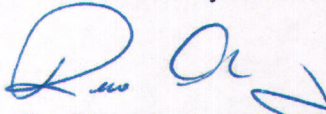
Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the preventive maintenance plan and oversight of non-capitalized assets. We determined Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division internal controls over customer service follow-up and contractor referral billing provide reasonable assurance that its objectives relating to these areas will be achieved. Reasonable assurance recognizes internal controls have inherent limitations, including cost, mistakes, and intentional efforts to bypass internal controls.

Internal Audit Report 2015-006: Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division

As requested, in accordance with III.C of the Board of Supervisors Resolution 83-338, management responded to the reported conditions and recommendations contained in our report. Management's responses are included in the report. We will follow-up to verify that management implemented corrective actions.

We thank the Riverside County Economic Development Agency, Facilities Management, Maintenance Service Division management and staff for their cooperation. Their assistance contributed significantly to the successful completion of this audit.

Paul Angulo, CPA, MA
Riverside County Auditor-Controller



By: René Casillas, CPA, CRMA
Interim Chief Internal Auditor

cc: Board of Supervisors
Executive Office
Grand Jury

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Executive Summary

Overview

The Maintenance Service Division (Maintenance Division) operates under Riverside County Economic Development Agency, Facilities Management. It provides customer service, energy services, heating, ventilating, and air conditioning (HVAC), plumbing, electrical, carpentry, construction, and landscape service in approximately 7.2 million square feet of diverse county-owned facilities. The goals identified by their management are as follows: to provide responsive customer service with efficient, compliant, safe, and aesthetically pleasing facilities by way of preventive, corrective and deferred (Facility Renewal) maintenance.

The Maintenance Division team of approximately 175 employees performs a variety of maintenance-related activities in over 340 buildings spanning the 7,200 square miles of Riverside County. The major responsibilities are:

- Elevator/Conveyance
- Water Treatment
- Underground/Aboveground fuel systems
- Regulatory Agency Compliance / Permitting
- Fire Monitoring and Suppression Systems
- Boiler Systems
- HVAC/R Systems
- Cooling Tower Systems
- Air-Handler Delivery Systems
- Thermal Energy Systems
- Plumbing Systems
- Cogeneration
- Building Envelope Systems
- Landscape and Irrigation
- Hardscape Exterior Lighting
- Environmental Comfort Systems
- Electrical/Emergency Power
- Building Automation Systems

The customer service team receives dispatches, corrective maintenance, and emergency response tasks 24/7/365 for both county-owned and leased facilities. The Maintenance Division receives on average 40,000 calls per year.

Audit Objective

Our audit objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over its preventive maintenance plan, oversight of non-capitalized assets, customer service follow up, and contractor referral billing for projects.

Audit Conclusion

Based upon the results of our audit, we identified opportunities for improvement of internal controls relating to the preventive maintenance plan and oversight of non-capitalized assets. We determined Riverside County Economic Development Agency, Facilities Management, Maintenance Division internal controls over customer service follow-up and contractor referral billing provide reasonable assurance that its objectives related to these areas will be achieved.

Reasonable assurance recognizes internal controls have inherent limitations, including costs, mistakes, and intentional efforts to bypass internal controls.

Preventive Maintenance Plan

Background

According to Maintenance Division management, preventive maintenance and minor repairs consist of scheduled tasks that sustain facility or equipment and their respective components over a prescribed life cycle. These tasks are done frequently and require a constant level of labor and materials for success. Corrective maintenance tasks consist of service calls, emergency response, and other tasks that cannot always be individually anticipated. These tasks consume a steady level of annual facility resources.

Delayed or renewal maintenance consists of component overhaul and/or replacement. These tasks extend a components life cycle and reset the preventive maintenance and minor repair tasks. Additionally, they are expensive, infrequent and require specialized expertise in many cases.

In order for preventive maintenance to be effective, best practices recommend developing a long term master plan for maintenance to circumvent major equipment failures and averting minor problems. From this perspective, the preventive maintenance master plan should consider the taxpayers investment in county buildings and equipment, operate each building in an efficient manner, maintain safe work environments with building operating properly, and reduce cost of maintenance, wherever possible, by performing preventive maintenance regularly.

This can be achieved by the following examples of best practices:

- Regularly performing inventories of building mechanisms.
- Establish priorities in servicing various projects for cost effectiveness.
- Strategically plan maintenance for both the long and short term.
- Establish an outline to the preventive maintenance program.
- Document how the preventive programs regularly improve services and maximization of each facility used.
- Incorporate maintenance team members from different trades in the decision making process.
- Document useful lives of major building componets and equipment.

In general, the Maintenance Division has implemented best practices as it relates to servicing projects such as the facility renewals, facility emergency, and vandalism/theft. Annually, the costs associated with the facility renewals are included in their departmental budget. Further, the division tracks countywide maintenance in Dynamics Customer Relationship Management,

a server-client application that allows their teams to monitor the preventive maintenance activities.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over preventive maintenance plan.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews with key personnel and reviewed department procedures as they relate to preventive maintenance services.
- Reviewed preventive maintenance task lists for selected items/systems.

Results

The Maintenance Division conducts preventive maintenance primarily on a monthly, quarterly, semi-annually, or annual service level. Each of the three regions, Eastern, Southwest, and Western, has maintenance teams established to provide services in any of the following trades: carpentry, electrical, heating ventilation and air conditioning maintenance, and plumbing. The assigned maintenance team member utilizes a checklist to identify the service items were completed with one of the following marks indicated for the service level (monthly, quarterly, semi-annually, annually) reviewed:

Code	Description
A	Adjusted
C	Cleaned
CH	Changed
X	Checked
L	Lubed
O	Oiled
R	Repaired
N/A	Not Applicable

Additionally, team members completing each assessment are required to print their full name and initial on the checklist. The results of the preventive maintenance is documented in 30/60/90-day reports which show the total tasks, preventive and corrective, by location, and whether the tasks were opened, in process, or closed when the report is generated.

We benchmarked the preventive maintenance task list with others in the industry to determine effectiveness and efficiency in terms of frequency of the tasks.

The yearly task report provides a total of all tasks completed by fiscal year. The following chart provided by the Maintenance Division shows the total preventive maintenance tasks completed in our audit period:

Fiscal Year	Total Tasks Preventive/Corrective
2013-14	32,917
2014-15	29,551
Total Tasks	62,468

Finding 1: Long-Term Preventative Maintenance Plan

The Maintenance Division does not have a documented long-term facilities master preventive maintenance plan. This plan should outline major scheduled repairs that are critical to county buildings, for components and equipment (mechanical & non-mechanical) utilized in these buildings to perform maintenance as well as estimated project expenditures related to the preventive and corrective maintenance. According to the Maintenance Division, a long-term facilities master preventive maintenance plan has not been documented. Without a formal long-term preventive maintenance plan documented, estimated costs of labor and materials cannot be identified, breakdowns of building components and equipment cannot be averted therefore increasing the risk of halting operations within a building, and business continuity is not assured when key staff members of the division are lost due to attrition. Furthermore, the most efficient methods of performing preventive and/or corrective maintenance industry-wide are not considered.

Recommendation 1.1

Document a long-term facilities master preventive maintenance plan.

Management's Response

“Partially Concur. The Maintenance Services Division (MSD) does have a long-term preventive maintenance plan and is executed monthly, quarterly, semi-annual, annually. This preventive plan is re-evaluated annually to adjust facility infrastructure assets as needed or augment activities to the program plan. Most recent example would be the added responsibility for maintaining all negative pressure rooms and related equipment at our county detention centers. The preventive maintenance plan is executed via the "preventive maintenance binders" at each respective location. These binders outline the scheduled preventive maintenance task(s) and activities, as well as, provide the mechanism to perform corrective maintenance repairs and future equipment life-cycle planning utilized in county owned facilities. The preventative maintenance plan does record and track related labor hours and materials used for repairs via the maintenance management system called Dynamics. Dynamics is used for and integrates; timesheet recording, customer service, procurement, finance, and projects.

The Facility Renewal Projects have been financially supported by the county executive office and have not historically been included in customer department's operational budget. Facility Renewal funding has varied in value over the years, from approximately \$7.5M in 2002, to \$607k in 2014. The past four- year total for Facility Renewal projects was funded at approximately \$3M in aggregate. In FY15/16, an additional allocation was incorporated into the maintenance services rate that will generate additional funding for Facility Renewal projects. This is a new funding mechanism that requires approval by the Rate Review Advisory Council and approval for rate increases to fund a more robust program is challenging. A more robust facility renewal program is needed however funding has been challenging for several years now.

The current preventive maintenance plan is used as a tool, along with other factors to establish the annual Facility Renewal maintenance project list. The annual projects and respective scope of work varies based on; funding availability, annual emergency repairs, regulatory-compliance needs, and fire / life / safety requirements. In 2003, the MSD hired a vendor to conduct a Facilities Condition Assessments of all county owned facilities. The purpose of the facility assessments served to:

- Survey and analyze the condition and elements of each facility;
- Report the condition;
- Describe immediate repairs and actions needed of those building systems;
- Develop projects and cost estimating; and
- Prioritize projects accordingly.

The Facilities Condition Assessment project surveyed approximately 3.5 million square feet of county owned property at the time. All projects and subsequent estimates were based on R. S. Means with the appropriate labor/material index with standard engineering and margins. The cost for all projects slightly exceeded \$100M. Since 2002, MSD has been afforded approximately \$33M for capital, life- cycle, emergency, and facility renewal maintenance projects for county owned facilities. Additionally, the MSD's responsibility has nearly doubled to include the maintenance of approximately 7 million square feet of county infrastructure. The number of projects exceeded the allocated funding to successfully complete the recommended assessment and has remained challenging over the years.

The Economic Development Agency considers and recognizes the importance of long-term facility infrastructure project planning. Preventive maintenance is a part of annual and any long-term project planning processes are a component within Facility Condition Assessments. The MSD management team will develop a plan which documents a comprehensive, multi-year, strategic FMMP (Facilities Maintenance Master Plan). This plan will address life-cycle, deferred maintenance, and facility renewal project planning. The plan will incorporate emergency response and prioritize the health and safety of employees and members of the community entering MSD maintained buildings.

This long-term plan will illustrate by location; specific building and infrastructure needs and develop projects to address those needs. The project plan will:

- Provide scope of work
- Estimate cost

- Prioritize projects
- Identify funding

The plan will address the backlog and work to address the need to adequately fund facility renewal projects and help to keep abreast of life-cycle maintenance requirements. The EDA will work with the EQ for plan approval and will continue to identify funding opportunities and make recommendations for priorities.”

- **Actual/estimated Date of Correction Action:** June 30, 2017

Within Fiscal Year 16/17

Recommendation 1.2

Update the preventive maintenance plan at least annually.

Management's Response

“**Partially Concur.** The current preventive maintenance plan will continue to be reviewed and updated annually. The suggested FMMP identified for implementation in response to recommendation 1.1 shall also be updated annually.”

- **Actual/estimated Date of Correction Action:** Annually

Oversight of Non-Capitalized Assets

Background

Board of Supervisors Policy H-26, *Non-Capitalized Assets*, which are small, mobile, easily converted for personal use and have a fair market value of at least \$200 are classified as “walk-away assets.” Examples include are not limited to laptops, computers, personal digital assistants, global positioning system, receivers, and cellular phones.

Each department ensures compliance with this policy by tracking walk-away assets using the county's asset management module. Departments may use another established system to ensure the accountability of non-capitalized assets if the department's system have been reviewed and approved by the Auditor-Controller's Office. No other system exception applies.

The Economic Development Agency, Facilities Management, Maintenance Division utilized the asset management module in PeopleSoft to track non-capitalized assets. They have developed their own departmental policy and procedure that details their processes to track non-capitalized assets. Among its procedures objectives, is to track their tool kits by custodian in the PeopleSoft Asset Module. A report of their non-capitalized asset, which was generated from their query, was provided to our office on June 15, 2015. We conducted an inventory of the tool kits based on that listing of non-capital assets. The tool kits represent 73% (or \$393,382) of the total non-capital assets that amounted to \$538,395.

Objective

Our objective is to determine the adequacy and existence of internal controls over the acquisition and maintenance of non-capitalized assets per Board Policy H-26.

Audit Methodology

To accomplish our objectives, we:

- Reviewed Board of Supervisor Policy H-26, *Non-Capitalized Assets*.
- Conducted interviews and performed walk-throughs with department officials.
- Selected a sample of 17 of the 139 tool kits to perform detailed inventory testing.
- Obtained an inventory of tool kits identified in the asset management module and reconciled to the list provided by department officials.

Results

Maintenance Division's management provided a list of non-capital assets from the asset management module that included 139 tool kits. We selected 17 tool kits, containing between

37 and 69 items each, which according to the query pulled by Maintenance Division officials were located in five Riverside locations as follows: Facilities Management 4080 Lemon Street, Facilities Management Third Street Building, Facilities Management Storeroom, Riverside Central Plant, and Robert Presley Detention Center. The query results also identified the custodians of each tool kit by trade (e.g. carpenter, electrician, heating ventilation and air conditioning, maintenance, painter, and plumber).

We compared the list of items that should have been included in the tool kit, which was based on inventory list provided by department officials with each custodian's items presented during our inventory. Although the Maintenance Division state an inventory is conducted once or twice a year, we found tool kit items missing with no documentation showing replacements and not in their assigned locations or to their assigned custodians.

Finding 2: Oversight of Non-Capital Assets

Tracking of Tool Kits

The Maintenance Division did not accurately track non-capitalized assets. Specifically, during fieldwork we identified five of the 17 (29%) tool kits assigned in the asset management module to perspective custodians were not accurately recorded. This occurred because controls were not in place to ensure non-capitalized assets are in the possession of the designated custodian when they terminate or transfer the department. The departments desk procedure states, "Return of tool kits for any employee that has terminated or transferred no later than the date of terminations or transfer...exchange of tool kit must be performed under the supervision of Storeroom custodian with appropriate documentation." Board Policy H-26, *Non-capitalized Assets*, states that each department shall ensure compliance with the policy by tracking walk-away assets using the county's Asset Management Module or another established system to ensure accountability. We found custodians along with their assigned tool kits had been transferred to other maintenance locations; however, the asset management module had not been updated to reflect the changes. Additionally, the department's storeroom staff was not able to locate tool kits which are forwarded to this respective location once a custodian retires or terminates their position with the department.

Discrepancies in the inventory do not represent the asset inventory value and may lead to a misappropriation of these walk-away assets if not properly tracked.

Replacement of Missing Items

Nine of the 17 (53%) tool kits inventoried had items missing and replacement forms were not completed. During the inventory, it was stated the items were either lost or stolen. Additional items were not replaced neither were there controls in place to ensure the county assets are properly safeguarded. The opportunity for theft or loss of county assets is present when controls are not implemented to properly track tool kits.

Recommendation 2.1

Conduct an inventory of all tool kits and update the location in the asset management module to ensure all items are accounted for.

Management's Response

"Concur. EDA's procedure for tracking tool kits is by custodian, not location. EDA Accounting & Finance will conduct a physical inventory of all tools requiring tracking and will update the monitoring system that will be used in EDA. The EDA met with the ACO in January to propose an opportunity to develop a more effective program in tracking tools. EDA will develop a revised policy, a revised tool listing for tracking, and use a new asset management system to track tools by custodian. This new approach will offer a more effective monitoring and tracking program of maintenance tools in compliance with Board Policy H-26."

- **Actual/estimated Date of Correction Action:** April 1, 2016

Recommendation 2.2

Reconcile tool kit items by trade with items issued to respective employee.

Management's Response

"Concur. The EDA will implement a new program for effective tool tracking. All tools will be tracked by custodian and will be updated on an ongoing basis when staffing changes occur. A policy will be developed and enforced."

- **Actual/estimated Date of Correction Action:** April 1, 2016

Recommendation 2.3

Enforce the completion of replacement forms for missing tool kit items.

Management's Response

"Concur. Once the revised policy and program is approved by the ACO, EDA will ensure all staff is properly trained. Staff will be required to sign a policy acknowledgement to these revisions. Staff will be expected to follow through in the completion of forms. The EDA, Accounting & Finance Division will conduct a yearly inventory and will review objectives of the policy to ensure 100% compliance."

- **Actual/estimated Date of Correction Action:** April 1, 2016

Customer Service Follow-Up

Background

The Maintenance Division utilizes Dynamics, a server-client application, to track requests for maintenance services as well as responses from customer service surveys. The responses are generated through regular telephone calls. A report is used to communicate the results to the superintendents and building engineers in the Maintenance Division during the monthly meeting. Maintenance team managers are tasked with addressing each concern in the surveys as they are presented in the monthly managers meeting. Follow-ups identified are directed to building engineers responsible for the location. The process includes discussion among managers and team members until resolved.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over customer service survey follow-up.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews and walk-throughs with key personnel.
- Reviewed a sample number of customer surveys received regarding maintenance services performed for the audit period.

Results

Based on our interviews with Maintenance Division officials, we found the surveys are completed in Dynamics via telephone calls to maintenance services customers, which are then placed into a report. Maintenance Division officials review customer service surveys on a monthly basis in their regularly scheduled management meetings. In order to ensure that survey results are addressed, complaints are assigned to the appropriate building engineer for resolution and/or follow-up. Further, any concerns are discussed daily in the standup meetings with employees. Based on the results of our audit, internal controls over customer service follow-ups are adequate.

Contractor Referral Billing

Background

The Maintenance Division contracts with vendor approved contractors for services. Their in-house Maintenance Request form (Form V) is completed when their customers request work for an addition or alteration of any given space. In a roundtable format, each Form V is reviewed by Maintenance Division management to determine if the request should be a work task or regular maintenance request. They also determine if their team can perform the task in-house or if a contractor should be hired. Certain tasks may be considered for contractor services but are paid by the Maintenance Division and then billed to the requesting department through journal entries.

Objective

Our objective is to provide management and the Board of Supervisors with an independent assessment of internal controls over contractor referral billing for the department.

Audit Methodology

To accomplish our objectives, we:

- Conducted interviews with key personnel.
- Reviewed a sample number of contractor invoices over \$400 billed for services performed at the request of the maintenance customers.

Results

Based on the results of our audit, internal controls over contractor referral billing are adequate.