NORTHERN ARIZONA UNIVERSITY

Internal Audit Department

Loss Prevention

June 2017
Report Number FY 17-08

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Northern Arizona University
Loss Prevention
Audit Report
June 30, 2017

Summary

Our audit of Northern Arizona University's compliance with the State of Arizona Loss Prevention Program is in the NAU Annual Audit Plan for FY 2017. It links to the Northern Arizona University goal of sustainability and effectiveness. The area was last audited in FY 2011 by Internal Audit.

Background: Title 2, Chapter 10, Article 2, of the Arizona Administrative Code outlines the required elements of a loss prevention program. These elements include:

1. An agency loss prevention policy statement
2. New employee and continuous in-service training programs
3. Documentation and recordkeeping of employee training
4. An emergency plan for each agency location
5. Procedures for scheduled safety inspections of buildings, grounds, equipment, and machinery
6. Procedures for accident and incident investigations
7. A maintenance program for state-owned vehicles, equipment, and grounds
8. A fire protection program
9. Systems and procedures to protect the personal security of each employee and prevent loss of, or damage to, state property
10. A land, facility, equipment, or process environmental protection program
11. A motor vehicle safety program
12. A safety and security standard for construction sites where state employees work.

Because loss prevention is a shared responsibility, these responsibilities are distributed to a variety of offices within NAU, including:

- Environmental Health and Safety Office of Regulatory Compliance
  - manages chemical and radiation safety programs
  - manages the environmental (air, water, and waste) program
  - provides hazard evaluation, compliance assessment, and hazardous material shipping
  - provides applicable training
- Contracting and Purchasing Services, which performs risk management responsibilities such as program/event risk assessments, insurance, claims and management of the Loss Prevention Program as required by Arizona Administrative Code.

- Facility Services, including Fire Life Safety and the NAU Fire Marshall
- Human Resources, which conducts new employee orientation
- Institutional Review Board.
- Office of Emergency Management
- Police Department
- Residence Life

A number of units within NAU perform functions related to loss prevention that were not part of the audit, including:

- An annual risk assessment done by Internal Audit
- Training, policy formulation, and monitoring of compliance related to intellectual property by Sponsored Projects Services
- Enforcement of the Safe Working and Learning Environment Policy by the Office of Affirmative Action and Equal Opportunity.

Audit Objective: To determine whether the internal control structure in effect is adequate to ensure the loss prevention program is in compliance with requirements of the Arizona Administrative Code, in order to prevent or control losses to the University.

Scope: The scope of our audit encompassed the examination and evaluation of the internal control structure and procedures that address the issues of loss prevention at the University.

Methodology: We conducted interviews of key University personnel, reviewed internal policies and procedures, and performed selective tests of the loss prevention program elements as deemed appropriate based on control risks.

Observations:

- An April 2016 independent study of NAU's facility asset management by Sightlines noted that NAU has fewer employees than its ABOR-approved peers in the custodial and maintenance areas of Facilities Services, and spends 50% less on

maintenance, as summarized below. This presents a challenge to NAU in cleaning and maintaining its buildings.

	Custodial			Maintenance		
	Coverage GSF/FTE	FTE per Supervisor	Material Spending $/GSF	Coverage GSF/FTE	FTE per Supervisor	Material Spending $/GSF
NAU	45,000	28	$0.09	110,000	12	$0.10
Peers	40,000	15	$0.09	90,000	9	$0.20

- Due to lack of funding, Facility Services is in a reactive mode regarding campus maintenance, other than for auxiliaries. Because of this,

   o Building systems may not be operating at an optimal level.

   o Equipment within buildings is more likely to break down than if preventive maintenance was adequate.

   o NAU fails to realize the increased facility life and lower long-term costs brought about by an effective preventive maintenance program. Funding constraints cause NAU to emphasize investments in critical infrastructure.

- Two deficiencies noted in our 2011 Loss Prevention Audit have been corrected. Defensive driver training and review of driver records are now adequate.

Conclusion: NAU's Loss Prevention Program complies with the requirements of the Arizona Administrative Code. NAU management is supportive of our recommendations and is actively working to implement the identified action items.

The control standards we considered during this audit and the status of the related control environment are provided in the following table.

General Control Standard (The bulleted Items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommen-dation No.	Page No.
Reliability and Integrity of Financial and Operational Information	Not Applicable		
Effectiveness and Efficiency of Operations	Not Applicable		
Safeguarding of Assets	Not Applicable		
Compliance with Laws and Regulations			
• Agency loss prevention policy statement	Reasonable to Strong Controls in Place		
• Risk management structure is appropriate	Opportunity for Improvement	1	6
• New employee and continuous in-service training programs	Reasonable to Strong Controls in Place		
• Documentation and recordkeeping of employee training	Opportunity for Improvement	2	8
• Emergency plans for each agency location	Reasonable to Strong Controls in Place		
• Procedures for scheduled safety inspections of buildings, grounds, equipment, and machinery (CAS)	Reasonable to Strong Controls in Place		
• Annual inspections of all laboratories on campus and annual inspections of all chemical fume hoods and biological safety cabinets (ORC)	Reasonable to Strong Controls in Place		
• Procedures for accident and incident investigations	Reasonable to Strong Controls in Place		
• Maintenance program for state-owned vehicles, equipment, and grounds	Reasonable to Strong Controls in Place		
• Fire protection program	Reasonable to Strong Controls in Place		
• Systems and procedures to protect the personal security of each employee and prevent loss of or damage to state property	Reasonable to Strong Controls in Place		
• Environmental protection program	Reasonable to Strong Controls in Place		
• Industrial hygiene program	Reasonable to Strong Controls in Place		

General Control Standard (The bulleted Items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Recommen-dation No.	Page No.
• Motor vehicle safety program	Reasonable to Strong Controls in Place		
• A safety and security standard for construction sites where state employees work	Reasonable to Strong Controls in Place		

We appreciate the assistance of staff with loss prevention responsibilities at NAU.

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Audit Results, Recommendations and Responses

1. The structure of the NAU risk management function should be improved.

Condition:

- No formal Risk Management function exists at NAU. The duties of the risk manager are being performed by the Executive Director of Contracting and Purchasing Services. Loss Prevention responsibilities as required under Arizona Administrative Code, program/risk assessments, Insurance and Claims are within her department.
- Responsibility for asbestos, PCB, and lead inspection and remediation lies within the Engineering & Inspection department of Facility Services. The Health and Safety Officer responsible for those activities has no budget.
- Responsibility for safety or risk management programs such as material safety (asbestos/lead/PCB); lab safety, and the Fire Marshal, lie within Facility Services, which is their largest client. Safety Managers located within Facility Services have no budget and no official line of communication with senior administrative officials.

Comment: The Association of Public Land-Grant Universities (APLU) in their "Guide to Implementing a Safety Culture in Our Universities" recommended establishing "a unified administrative reporting model that connects responsibility for development and implementation of academic safety policies. The model should fall under one administrative pillar in the institution and should include faculty, EH&S officers, and administrative leaders." President Cheng established a University Safety Committee in October 2016 to provide recommendations for implementing this initiative.

Criteria: The organization of the risk management function should be appropriate for all aspects of risk management.

Cause: Although NAU's programs have grown and changed, funding and staffing for risk management has remained fragmented.

Effects:

- Individuals seeking guidance for risk management related issues may not know the proper person to contact.

- Contracting and Purchasing Services has limited budget and staffing to provide risk management services.
- Departments with material safety or other concerns which may need remediation may not raise the issue because their departments may be charged for the work.
- Departments which house safety or risk management personnel, but have other missions, may reduce the role of these personnel and programs for cost savings or conflicting priorities.

Recommendations:

- The formal responsibility for risk management should be assigned to an individual with knowledge/experience in risk management, and with adequate authority to ensure the success of the program.
- Programs such as Material Safety and the Fire Marshal which are housed within their client departments should be moved to a department with a risk management mission.
- The Material Safety department should be provided with a budget.
- Risk management responsibilities should be centralized to the greatest extent possible and staffed appropriately.
- Departments or personnel responsible for safety or risk management should have a direct reporting relationship with a senior administrative official.

Response: We agree that operational structure should be reviewed to ensure the organizational structure of risk management is appropriate for NAU. The review will begin after the new Vice President for Research joins NAU on August 1, 2017. The review will be complete and any changes implemented by July 1, 2018. Daniel T. Okoli, Vice President for Capital Planning and Campus Operations.

2. NAU should acquire a comprehensive software solution for health, safety, and training management.

Condition: Health, safety and training administration at NAU is decentralized, with some information maintained on various automated systems and some maintained manually. The processes used are inefficient and do not promote lab safety and risk management.

Criteria:

A system for health, safety, and training administration should:
- Enable efficient recordkeeping
- Be a centralized resource and track activities of staff, faculty, and student employees
- Facilitate job hazard analysis (JHA) between faculty/supervisors and NAU EHS
- Be able to identify individuals requiring training based on JHA
- Integrate with the NAU IT security framework
- Provide management reporting.

Cause: The lack of a centralized system has led NAU departments to develop solutions to tracking and managing aspects of health, safety, and training management that do not work well for the university as a whole.

Effect: Health, safety, and training management at NAU is inefficient and lacks functionality that would benefit employees, promote safety and risk management, and enhance individual job proficiency.

Recommendation: NAU should acquire a comprehensive software solution for health, safety, and training management.

Response: BioRAFT, a training and hazard management software solution, has been approved for purchase. Implementation and testing are scheduled for Q1 of FY 2018. It is scheduled to go live by the end of Q2 of FY 2018. It is anticipated BioRAFT will form part of larger campus-wide training management system. Steve Burrell, Chief Information Officer and David Faguy, Assistant Vice President for Regulatory Compliance.

Distribution:

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