

September 12, 2011

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Assistant Vice Chancellor
Auxiliary & Plant Services
0908

***Subject: Auxiliary & Plant Services – Business & Finance
Audit Project 2011-72***

The final audit report for Auxiliary & Plant Services – Business & Finance, Audit Report 2011-72, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit.

The findings included in this report will be added to our follow-up system. While management corrective actions have been included in the audit report, we may determine that additional audit procedures to validate the actions agreed to or implemented are warranted. We will contact you to schedule a review of the corrective actions, and will advise you when the findings are closed.

UC wide policy requires that all draft audit reports, both printed (copied on tan paper for ease of identification) and electronic, be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to AMAS personnel, or destroy them, at the conclusion of the audit exit conference. AMAS also requests that draft reports not be photocopied or otherwise redistributed.

Stephanie Burke
Assistant Vice Chancellor
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Attachment

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AUDIT & MANAGEMENT ADVISORY SERVICES



University of California
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Auxiliary & Plant Services – Business & Finance
June 2011

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Project Number: 2011-72

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ATTACHMENT A – Business & Finance Services Matrix

ATTACHMENT B – Business & Finance Organization Chart

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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of Auxiliary & Plant Services – Business & Finance as a supplement to our approved audit plan for fiscal year 2010-11. This report summarizes the results of our review.

Auxiliary & Plant Services (A&PS) is a department comprised of seven unique divisions that provide a variety of services to the UCSD community and to external parties or visitors that utilize UCSD facilities. The seven divisions consist of the Campus Research Machine Shop (CRMS), Imprints, Transportation & Parking Services (T&PS), Facilities Management (FM), the Early Childhood Education Center (ECEC), the UCSD Bookstore and the Faculty Club.

A&PS divisions receive varying levels of administrative support from three centralized A&PS units: Human Resources, Information Technology, and Business & Finance. These units are funded through an administrative recharge assessed on divisions that utilize the services. During the first 11 months of each fiscal year, divisions are assessed a flat recharge based on management’s estimate of annual resource use. The recharge assessed for final month of the fiscal year includes a “true-up” of actual costs for the year based on actual effort assessments made by management.

The A&PS Business & Finance unit is responsible for providing centralized accounting and financial support services to A&PS divisions, with the exception of the UCSD Bookstore, and the Faculty Club¹. Core services that are provided by Business & Finance include financial analysis, annual budget preparation, financial reporting, accounts payable, payroll and accounts receivable. Because each A&PS division is operationally unique, the level of service provided to each unit greatly varies, especially in terms of financial support services. For example, the ECEC Business Manager prepares monthly financial reports and assists the Director of Business & Finance with preparation of the annual budget. A matrix detailing services currently provided to each division is documented in **Attachment A**.

The A&PS Business & Finance unit is staffed with eight full time equivalents (FTE), in addition to the Director. Four of these staff members are responsible for budgeting, financial analysis and financial reporting for T&PS, FM, Imprints and Fleet Services. The remaining four staff members are responsible for operating and general ledger accounting and other accounting type activities such as processing purchase orders, payroll, accounts receivable and recharges. An organization chart is provided in **Attachment B**.

¹ The UCSD Bookstore and Faculty Club are administratively self-contained including accounting and finance personnel.

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Over the past few years Business & Finance has been involved with two significant system implementation projects. During fiscal year 2006-2007, A&PS began implementing a new asset management system called Maximo, the objective of which was to replace the legacy work order system (referred to as “The HP”) with a system that could better enable FM to operate in a preventive maintenance mode². It was initially thought that Maximo would have satisfactory General Ledger and/or Operating Ledger capabilities that could be used to generate useful reports for FM. However, when A&PS Business & Finance Services found that Maximo did not contain all of the capabilities needed to generate desired reports, a new system was sought out to bridge this reporting gap. Ultimately, an Oracle eBusiness Solution package (Oracle) was deemed to fit the needs of the department.

The Business & Finance unit was heavily involved with the implementation of both the Maximo and Oracle systems. While implementation of the Maximo system was considered complete as of the date of this review, Business & Finance continued to provide support services for the system. The support service consisted primarily of a help desk for troubleshooting Maximo issues reported by FM staff.

As of the date of our review, the Business & Finance unit was meeting regularly with the campus Business & Financial Services (BFS) Division to determine whether or not to utilize Marketplace for processing purchase orders. While the intent of Marketplace is to streamline the ordering process and provide value pricing based on strategic sourcing initiatives, the Business & Finance Director was concerned that the Marketplace process would result in significant increases in after-the-fact reconciliation efforts to match business unit receipts to invoices paid by BFS-Disbursements, which in turn would require additional staffing.

II. Audit Objective, Scope, and Procedures

The objective of our review was to determine if the financial and accounting services provided by Business & Finance are effective, efficient and meeting the needs of the various A&PS divisions receiving the services. In order to achieve our objectives we completed the following:

- Interviewed the A&PS Assistant Vice Chancellor, and Business & Finance Director;
- Reviewed the A&PS Senior Administrative Leadership Team and A&PS Business & Finance organization charts;

² Preventative maintenance mode is defined as ensuring that equipment and facilities are in satisfactory operating condition by providing for systematic inspection, detection, and correction of incipient failures either before they occur or before they develop into major defects. This mode is proven to be more cost effective than operating in a reactive maintenance mode, whereby maintenance is provided as defects or failures occur.

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- Interviewed the following Business & Finance staff members: Senior Financial Manager, Imprints & Fleet Financial Analyst, Transportation Financial Analyst, Senior Account Manager and Financial Systems Analyst;
- Evaluated the utility of financial reports provided to the various divisions;
- Determined the level of satisfaction with Business & Finance services via interviews with the FM Director, the FM Planning/Production Manager, the T&PS Acting Director, the Imprints Director, the ECEC Financial Manager, and the Fleet Services Manager;
- Obtained a high level overview of the functionality of the Maximo and Oracle systems;
- Interviewed the UCSD Bookstore Associate Director and Accounting Manager to obtain an understanding of the Bookstore accounting and finance function;
- Reviewed the UCSD Bookstore organization charts and compared Bookstore accounting and finance staffing levels to Business & Finance staffing levels; and
- Evaluated the accuracy of the posting of work order transactions from Maximo to IFIS by testing a random sample of 20 Maximo work order transactions processed between October 1, 2010 and March 31, 2011. Transactions were randomly selected using Audit Command Language (ACL).

III. Conclusion

Based on the work completed, we concluded that the Business & Finance unit has taken on additional responsibilities without additional resources and, therefore, has not been able to provide a consistent level of quality and service. As a result, some divisions were not satisfied with the level of services and timeliness of financial reports provided by Business & Finance. Further, due to lack of formal documentation outlining the Business & Finance services provided to the various divisions, some divisions did not have a clear understanding or expectation of the service levels Business & Finance was providing. We also noted that Oracle was not yet operating as originally intended, primarily due to complications in accurately importing IFIS data.

IV. Observations and Management Corrective Actions

A. Business & Finance Service Levels

In recent years, the range of Business & Finance services provided to various A&PS divisions has changed substantially, without a corresponding change in staffing levels and/or a change in divisional expectations of Business & Finance service levels. As a result, service levels provided to divisions were inconsistent and division satisfaction with services was low.

A&PS has three centralized administrative units (HR, IT and Business & Finance) that provide services to most of the A&PS divisions. This structure is analogous

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to a corporate organization that provides centralized administrative services to the various corporate divisions. The benefits of maintaining such a structure are that services provided are highly specialized and provided consistently across the organization. This type of structure could also result in some cost savings. One of the drawbacks of this structure is that divisional management concedes a certain level of control over their operations. For example, divisional management does not have the ability to directly control costs that are incurred as a result of these services. Further, they cannot direct how services are provided or prioritized.

In an ideal operating environment, the role of a centralized administrative unit is clearly defined so that divisional management fully understands the scope of the services that the unit is providing. By extension, divisional management understands the distinction between the responsibilities of his/her division and that of the centralized administrative unit. For example, reconciliation of cash collections is typically the responsibility of a distributed division, whereas the posting of cash collections to the general ledger is typically the responsibility of the centralized administrative unit.

The Director of A&PS Business & Finance described the mission of his unit as providing corporate level accounting and financial reporting services to A&PS divisions. Some of the most significant services that have historically been provided by Business & Finance included operating/general ledger accounting; the processing of accounts payable, accounts receivable, purchase orders, customer billing and payroll; and providing divisional management with financial reports, financial analysis, strategic planning and budgeting.

In recent years, the level and composition of services provided to FM and T&PS have changed significantly, primarily due to various system implementation projects within these two divisions. In regards to services provided to FM, Business & Finance has been heavily involved in various aspects of the Maximo and Oracle implementation projects, thereby impacting the level of service that had historically been provided to the division. One of the Business & Finance Accounts Payable Assistants was promoted to a Financial System Analyst position in order to provide help-desk type assistance to FM with Maximo related system issues. Other Business & Finance staff members have been working to ensure that IFIS related data is being properly uploaded to Oracle.

For T&PS, the implementation of a new point-of-sale system (T2) and parking pay stations in T&PS significantly increased the level of services being provided by Business & Finance. Based on interviews with the Acting T&PS Director and T&PS Financial Analyst, the implementations of T2 and parking pay stations were not effectively planned or executed, and resulted in unforeseen impacts to

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existing business processes. This view was confirmed in a prior AMAS review (2009-67). One of the most significant impacts of these implementation projects was a significant increase in credit card transaction activity, which T&PS was not adequately prepared to handle internally. Ultimately, Business & Finance was tasked with reconciling T&PS credit card activity, which was assigned to an A&PS Business & Finance Financial Analyst.

Director for Business & Finance also indicated that the T2 system lacked the ability to break sales revenue into meaningful categories, which is necessary for financial analysis and preparation of T&PS financial reports. As a result, Business & Finance assumed responsibility for allocating revenue into sales categories manually.

Because Business & Finance took on these additional responsibilities without additional resources or staff, other services that were historically being provided were either delegated out to the divisions or otherwise negatively impacted. For example, Business & Finance charged FM with assuming increased ownership of work order data and taking a more active role in fielding customer billing inquiries. Also, the level of financial analysis support provided by Business & Finance to T&PS significantly reduced as a result of Business & Finance assuming selected T2 and pay station responsibilities.

Historically, divisions have had clear expectations for the services that Business & Finance provided, and had little reason to question the amount of the administrative recharge that was being assessed by Business & Finance. However, the recent changes in service levels have caused some dissatisfaction with divisional management, and some select divisions feel that they no longer have clear expectations of the services that Business & Finance provides.

Management Corrective Actions:

An Administrative Assistant in T&PS has been indefinitely charged with assisting the Transportation Financial Analyst in reconciling T&PS credit card transactions, as well as assisting with utility billing. In this role, the Administrative Assistant also reports to the Director, A&PS Business and Finance, who provides oversight for reconciliation of T&PS financial activity.

In order to increase the effectiveness of services provided by Business & Finance, and to increase divisional satisfaction with those services:

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1. Business & Finance will evaluate services currently being provided centrally and identify services that could potentially be delegated to the divisions so more resources can be dedicated to services highly essential to the mission of Business & Finance, such as financial analysis, reporting, accounts payable, and payroll.
2. Business & Finance will formally document and effectively communicate the level of service being provided to each division so that each division will have a clear expectation of the services being centrally provided. A&PS will implement a time reporting system that will be used to effectively communicate the level of service being provided to each division on a prospective basis. Further, Business & Finance will develop a mutual agreement with divisions for the level of services provided.
3. A&PS will develop and implement a customer survey mechanism to obtain feedback from the divisions on the level and quality of services provided by Business & Finance, and to improve services if needed based on survey results.

B. Oracle Implementation

As of the date of this review, FM financial data in Oracle did not agree to FM data in IFIS, and therefore could not be routinely or uniformly used to generate meaningful reports to management. As a result, financial reports were generated via IFIS.

The Oracle system was intended to interface with Maximo and provide accounting and reporting functionality that Maximo was unable to provide as a stand-alone product. Oracle collects work order data from Maximo and can be used to generate purchase orders, process Accounts Payable, provide ledger and sub-ledger accounting, account for inventory, bill customers and post work order data to the integrated financial information system (IFIS).

In addition to being used for project accounting, one of the initial goals that Business & Finance had for the Oracle system was to generate financial reports for FM management. One other long-term implementation goal was to interface Oracle with the financial systems used in the other A&PS divisions, and to generate financial reports for those divisions, as well as generate consolidated financial reports for A&PS as a whole. As a result, user-friendly financial reports could be provided to divisions more efficiently and timely.

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A majority of the FM financial data required to generate FM reports is accounted for in Oracle. Many of FM purchase orders are processed using Oracle, and additional financial data that is directly related to work orders from Maximo. However, there are some FM expenditures that are not accounted for in Oracle. These expenditures include payroll related data such as comp time and sick leave, as well as purchases made from other UCSD departments such as Telecommunications, Bookstore, CRMS, EH&S, Marketplace and Mail Services.

Business & Finance's objective has been to develop a script that will efficiently and accurately upload this financial data from IFIS to Oracle. To develop this script, Business & Finance accounting staff (with the assistance of external consultation) was initially charged with manually uploading non-Oracle financial data from IFIS, and is currently in the process of identifying the rules to be built into the script to ensure that all activity is captured. Uploading IFIS data to Oracle has proved to be complicated and, as a result, Business & Finance had been unsuccessful in generating complete FM financial statement as of the date of this report. As a result, FM financial reports have been generated directly from IFIS on an interim basis. Additional summary reports consolidating financial position and activity levels would be useful.

Due to the complications encountered in generating FM financial reports via Oracle, Business & Finance had not commenced with implementation of Oracle in other A&PS divisions. While Business & Finance did not have an immediate need to use Oracle for most A&PS divisions, there is an urgent need to replace the legacy system used for T&PS financial analysis and report generation. This system, which is comprised of multiple MS Access and Paradox tables, is no longer being supported and resides on outdated hardware. Therefore, there is a significant risk that the system could discontinue to operate properly.

Management Corrective Actions:

Business & Finance will continue to refine the script used to upload financial data from IFIS to Oracle, and ensure that the process results in general ledgers that are consistent in both systems. Once Oracle agrees in total to IFIS, Business & Finance will work with FM management to develop effective financial reporting solutions that meet their needs.

Business & Finance will also replace the system that is currently being used for T&PS financial analysis and reporting with Oracle. Until Oracle is determined to be readily used for financial reporting and analysis, Business & Finance will run the legacy system in parallel to Oracle.

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Attachment A
Business and Finance Services Matrix*

| Services | Division | | | | | | | |
|--|----------|----|-----------------------------|------|------|------|--------------|-----------|
| | Imprints | FM | Fleet Services ¹ | T&PS | ECEC | CRMS | Faculty Club | Bookstore |
| <i>Accounting Services</i> | | | | | | | | |
| Cash Deposit Verification | X | X | | X | | | | |
| Credit Card Reconciliations² | | | | X | | | | |
| Depreciation Schedules | X | X | X | X | X | X | | |
| Non-Recharge Billing (External Customers) | | X | | X | X | | | |
| Post ENPETS | X | X | X | X | | | | |
| Post Revenue JVs | X | X | | X | | | | |
| Process AP | X | X | X | X | X | | | |
| Process Payroll | X | X | X | X | X | X | | |
| Process Purchase Orders | X | X | X | X | X | X | | |
| Process Recharges | X | X | X | X | | | | |
| <i>Financial Services</i> | | | | | | | | |
| Budget Assistance | X | X | X | X | X | X | | |
| Financial Analysis | X | X | X | X | X | X | | |
| Financial Reports | X | X | X | X | X | X | | |
| Recharge Rate Review Assistance | X | X | X | X | | X | | |
| <i>Additional Services</i> | | | | | | | | |
| Customer Service Inquiries | | X | | X | | | | |
| DSA Services | X | X | X | X | X | X | | |
| Express Card Administration/Review | X | X | X | X | X | | | |
| Maximo Support (Help Desk)² | | X | | | | | | |
| Limited Citation Review | | | | X | | | | |
| Physical Inventory (Adjustments) | X | X | X | X | X | X | | |
| Upload IFIS Data to Oracle² | X | X | X | X | | | | |

| | | | | | | | | |
|---|----------|-----------|----------|-----------|----------|---------|---|---|
| Business & Finance recharge allocation 2009/2010 | \$63,156 | \$513,492 | \$50,171 | \$114,426 | \$10,445 | \$2,631 | - | - |
| Business & Finance recharge allocation 2010/2011 | \$58,611 | \$476,534 | \$46,560 | \$106,190 | \$9,693 | \$2,441 | - | - |
| Approximate FTE as of June 30, 2010 | 26 | 357 | 15 | 91 | 50 | 11 | | |
| Approximate FTE as of June 30, 2011 | 26 | 347 | 15 | 87 | 50 | 11 | | |

Substantial Effort

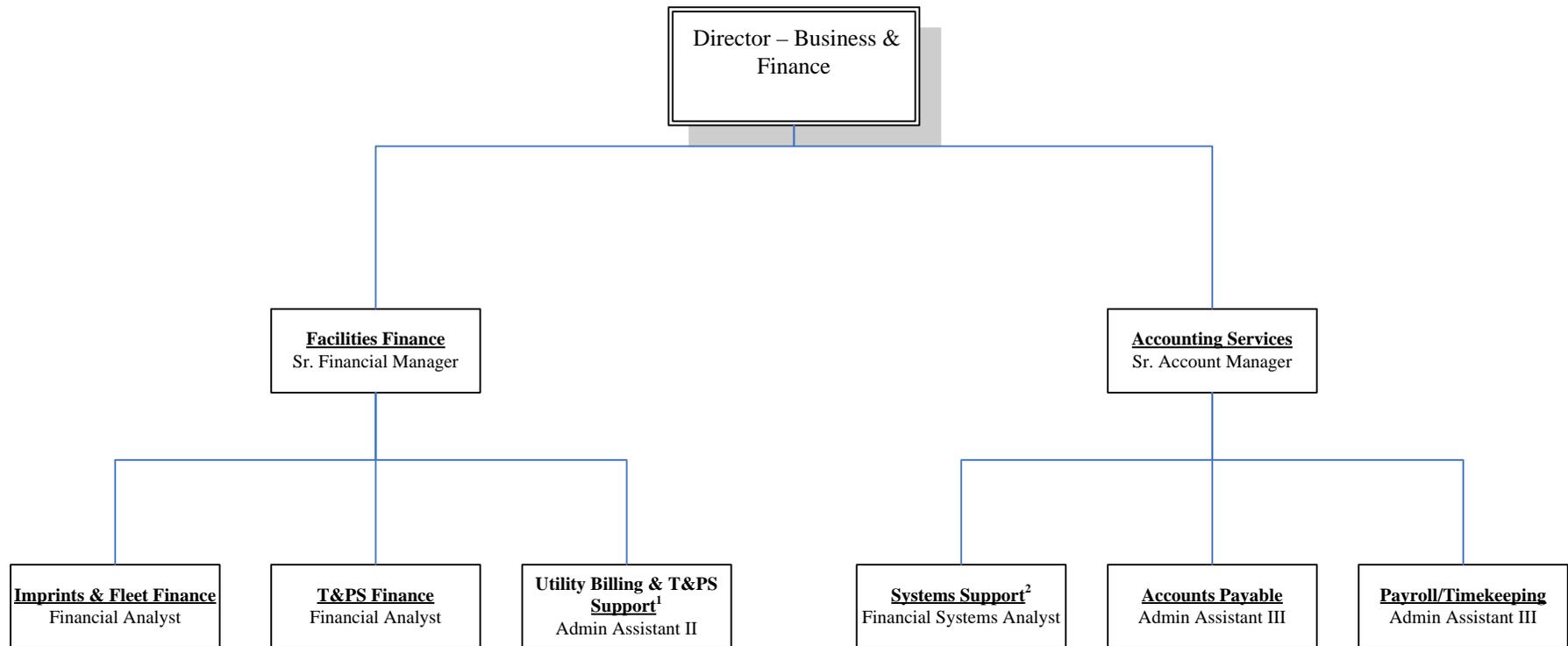
Mid-level Effort

Limited Effort

¹From an organizational standpoint, Fleet Services is a unit within FM.

² This area represents an increase in support services provided by Business and Finance over the past few years.

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Attachment B
Business & Finance Organization Chart*



¹The Administrative Assistant II is a T&PS employee that has been indefinitely assigned to Business & Finance to assist with T&PS credit card reconciliations and provide support for utility billing.

²The Financial Systems Analyst is responsible for Maximo help desk support.