

**UNIVERSITY OF CALIFORNIA, SAN FRANCISCO
AUDIT & ADVISORY SERVICES**

**Facilities Contractor Overtime
Project # 21-074**

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University of California
San Francisco

Audit & Advisory Services

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SUBJECT: Facilities Contractor Overtime

At the request of UCSF Health senior leadership, Audit & Advisory Services (“A&AS”) conducted a review of the contractor overtime (OT) within UCSF Health Facilities & Support Services (FSS). The purpose of this review was to assess processes and mechanisms for tracking and review of contractor overtime, including threshold criteria.

Our services were performed in accordance with the applicable International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors (the “IIA Standards”).

Our review was completed and the preliminary draft report was provided to department management in February 2021. Management also provided their final comments and responses to our observations in February 2021. The observations and corrective actions have been discussed and agreed upon with department management and it is management’s responsibility to implement the corrective actions stated in the report. A&AS will periodically follow up to confirm that the agreed upon management corrective actions are completed within the dates specified in the final report.

This report is intended solely for the information and internal use of UCSF management and the Ethics, Compliance and Audit Board, and is not intended to be and should not be used by any other person or entity.

Sincerely,

Irene McGlynn
Chief Audit Officer
UCSF Audit & Advisory Services



EXECUTIVE SUMMARY

I. BACKGROUND

At the request of UCSF Health senior leadership, Audit & Advisory Services conducted a review to assess processes and mechanisms for tracking and review of contractor overtime (OT) within UCSF Health Facilities & Support Services (FSS), including threshold criteria.

FSS provides maintenance and support for UCSF Health buildings and assets on a recharge basis, using a combination of UCSF employees and contract labor from Able Engineering Services.¹ In July 2020, FSS submitted a change order requisition to add \$335,369 to Able Engineering Services' existing purchase order (PO) # SFMED-359507C to cover OT variance for FY 2020. The OT for contracted engineers was not included in the budget estimates for FY 2020. The additional funding was required to pay June 2020 final invoices billed in July 2020.

Able Engineering Services change order variance for the prior four fiscal years are outlined below.

Period	ABLE Purchase Order (PO) Budget	Final ABLE Actuals	Variance	Change Order (CO)
FY 2017	\$12,887,426	\$14,437,734	(\$1,550,308)	\$1,976,786
FY 2018	\$13,375,231	\$14,414,119	(\$1,038,888)	\$1,193,196
FY 2019	\$15,806,262	\$15,852,824	(\$46,562)	\$99,606
FY 2020	\$15,924,130	\$16,259,499	(\$335,369)	\$335,369
Total	\$57,993,049	\$60,964,176	(\$2,971,127)	\$3,604,957

II. AUDIT PURPOSE AND SCOPE

The purpose of this review was to assess processes and mechanisms for tracking and review of contractor OT, including threshold criteria. The scope of the review covered transactions and activities for contractors for Able Engineering FY 20.

Procedures performed as part of the review included interviews and walkthroughs with relevant department personnel, review OT labor tracking; verification of monitoring procedures to analyze contractor OT; and validation testing of Able Engineering invoices to timesheets. For more detailed steps, please refer to Appendix A.

Work performed was limited to the specific activities and procedures described above. As such, this report is not intended to, nor can it be relied upon to provide an

¹ UCSF Health contracts with Able Engineering Services to provide stationary engineers at UCSF Health facilities sites including: Mission Bay, Parnassus, and Mount Zion. Able Engineering Services employs station engineers through the International Union of Operating Engineers (IUOE) Local 39 of San Francisco. The stationary engineer's service contract is part of an overall contract at UCSF Health for this type of work. The current agreement in place is effective October 1, 2018, through September 30, 2023.

assessment of compliance beyond those areas specifically reviewed. Fieldwork was completed in December 2020.

III. SUMMARY

Based on work performed, internal controls over the tracking and reviewing of contractor OT were generally adequate. Accruals of regular and OT hours were tracked on a monthly basis. Additionally, in July 2020, FSS performed a self-assessment that documented process and data flow, identified four OT buckets that will be implemented in FY 21 to improve OT tracking, and have developed a monthly OT labor variance reporting process to increase transparency. In addition, FSS is focused on continuous improvement and will review other staffing models at UCSF and compare to the current use of Able Engineering Services to improve sustainability practices.

Opportunities for improvement were identified during this review in the areas of communications with upper management, OT labor tracking, and OT variance analysis.

The specific observations from this review are listed below as well as in Section IV.

1. Overtime variances and associated financial cost for any substantial contract labor overrun had not been communicated to senior management on an ongoing basis.
2. Overtime for contracted engineers was not budgeted for FY 20 and overtime data had not been analyzed or classified into overtime buckets to identify the reason for activity or review for reasonableness.
3. Actual overtime hours worked are not reconciled against estimated overtime hours approved.

Additionally, during the course of this review, a potential opportunity for improvement was noted to include in next negotiated Able Engineering Services contract the wage rate agreement for all job classifications to ensure accurate rates are billed on invoices.

IV. OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>	<u>MCA</u>
1	<p><i>Overtime variances and associated financial cost for any substantial contract labor overrun had not been communicated to senior management on an ongoing basis.</i></p> <p>The historical process for FSS to cover OT variance had been to pay Able Engineering Contractor invoices that included OT on a monthly basis, and issue one change order at the end of the FY to account for total amount over budget for the year (including OT). For FY’s 2017- 2020, Able Engineering Services’ total labor cost (including OT) was \$60,964,176, and total change order variance was \$3,604,957.</p> <p>The FSS Finance Team had been tracking Able Engineering Contractor OT internally on a monthly basis; however, OT variances were not being regularly communicated to senior management or for inclusion in the budget forecast.</p>	<p>Lack of adequate OT management and communication practices may result in excess payroll costs, which may have a negative financial impact on the department and the University.</p>	<ul style="list-style-type: none"> • Provide more extensive and regular monitoring reports to senior leadership, so they are not surprised at the total amount at the end of the year. • Consider establishing a threshold for OT variances and communicate or seek approval from senior management for variances over the threshold amount. 	<ul style="list-style-type: none"> • FSS has begun the process of including a monthly report with the invoice to inform senior leadership of OT hours as they are incurred. • FSS will review any OT variances over the the budget amount with UCSF Health Chief Operating Officer on a quarterly basis.
2	<p><i>Overtime for contracted engineers was not budgeted for FY 20 and overtime data had not been analyzed or classified into overtime buckets to identify the reason for activity or review for reasonableness.</i></p> <p>OT for contracted engineers was not included in the budget estimates for FY 2020. As a result, a change order requisition was submitted in July 2020 to add \$335,369 to Able Engineering Services’ existing purchase order (P.O.) to cover OT variance for FY 2020. In addition, while OT had been tracked on a monthly basis, OT variance analysis had not been performed. There was no OT variance analysis report available to regularly analyze fluctuations and highlight anomalies in Able Engineering contractor OT.</p>	<ul style="list-style-type: none"> • Lack of adequate monitoring of OT, such as analyzing fluctuations, may lead to abuse of OT and unplanned payroll costs increases. • Lack of OT categories can result in 	<ul style="list-style-type: none"> • FSS should budget for OT and include in the relevant P.O. • FSS should split out typical work from unanticipated emergency work in monitoring and define the OT activities to be monitored. 	<ul style="list-style-type: none"> • FSS has analyzed OT and determined an appropriate estimate to include in the P.O. for Able Engineering for FY 21. Additionally, the established monthly report to senior leadership includes OT variance tracking, and FSS is working to leverage Maximo to generate that report with less manual effort required.

No.	Observation	Risk/Effect	Recommendation	MCA
	<p>As part of the self-assessment FSS conducted, they analyzed OT for five years and classified them into the following categories, which will be used for labor tracking purposes for FY 2021 and moving forward:</p> <ol style="list-style-type: none"> 1) Capital Project; 2) Urgent Response; 3) Scheduled Preventive Maintenance; and 4) Unforeseen emergencies (e.g., Floods). <p>All OT will be reported monthly as a variance review of associated causal events that can be evaluated as to whether they are truly unavoidable.</p>	<p>inaccuracies not being detected.</p>		<ul style="list-style-type: none"> • FSS has identified categories for OT and is including them in the monthly reporting. Additionally, they are working with Able Engineering and Maximo to standardize use of these categories throughout the data flow.
<p>3</p>	<p><i>Actual overtime hours worked are not reconciled against estimated overtime hours approved.</i></p> <p>FSS approves OT by creating work orders that include the requirement for after hours or additional hours to be worked; however, they have not been reviewing OT charged on timesheets against those work orders. Instead, they have been reviewing labor charges (including OT) against budget as a mitigating control, although OT for contracted engineers was not included in budget estimates for FY 2020. As a result, an additional \$335,369 was added to Able Engineering Services' existing purchase order (P.O.) to cover the end of year overtime variance for FY 2020.</p>	<p>Lack of adequate OT management practices may result in excess payroll costs.</p>	<p>Management should provide guidelines to contractor employees on OT procedures, including requesting OT, and require supporting documentation to ensure compliance with university and union agreement requirements. Additionally, OT incurred should be reconciled against OT approved to validate that only appropriate OT is being charged.</p>	<ul style="list-style-type: none"> • FSS is currently doing manual reconciliation and working to leverage Maximo to generate an automated OT tracking report. • FSS has developed OT tracking procedures, including leveraging the HBS timekeeping and Maximo system to track labor hours. Contractor employees clock in and out for hours worked through HBS, which calculates OT hours and enters a timesheet in Maximo for tracking time associated with each work order.

V. OPPORTUNITIES FOR IMPROVEMENTS

No.	<u>Observation</u>	<u>Risk/Effect</u>	<u>Recommendation</u>
1	<p><i>Wage rates and shift differentials rates on Able Engineering invoices are not reconciled against rates in contract agreement.</i></p> <p>FSS submits invoice accruals to accounting based on estimated wage rates. When Able Engineering invoices come in, FSS compares invoices to accruals amounts. However, wage rates and shift differential rates on invoice are not checked against the contract.</p> <p>A review of June 2020 invoices identified no variance on differential rates however job classifications for Journeyman Engineer, Apprentice Engineer, and Mobile Engineer were not listed on the wage rate table in contract agreement to validate accuracy.</p>	<p>Incorrect rate charges increase the risk for FSS being overcharged on invoices.</p>	<p>Include in next negotiated contract the wage rate agreement for all job classifications and factors that determine the wage rates.</p>

APPENDIX A

To conduct our review the following procedures were performed for the areas in scope:

- Interviewed personnel and perform walkthroughs to get an understanding of activities for the areas under examination.
- Reviewed overtime (OT) labor tracking and verified OT grouped in one of the following OT buckets:
 - 1) Capital Project;
 - 2) Urgent Response;
 - 3) Scheduled Preventive Maintenance; and
 - 4) Unforeseen emergencies (e.g., Floods)
- Verified monitoring procedures are in place for analyzing fluctuations and highlight anomalies in contractor OT.
- Reviewed Able Engineering invoices to validate accuracy and appropriateness. Determined if contractor invoices agree with contractor timesheets.