

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

**Facilities Services
Internal Controls Assessment
Project #15-022**

February 2015

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MANAGEMENT SUMMARY

As a planned audit for Fiscal Year 2014-2015, Audit and Advisory Services (AAS) conducted an internal controls assessment at Facilities Services. The objectives of the review were to (1) evaluate and validate the design of the internal controls over time reporting, use of contractors, and procurement of supplies and inventory; and (2) evaluate the use of resources and existing internal controls in place to identify opportunities for efficiencies.

To achieve our objectives, we interviewed key personnel in Facilities Services to gain an understanding of the processes and internal controls environment; reviewed internal business process guides and matrix of roles; analyzed BearBuy purchasing volumes and validated approval flows and receipts; and documented and assessed the process flows identifying key and supporting controls to determine that the controls as designed are effective; and evaluate opportunities for efficiencies.

Based on the work performed, the processes implemented for procurement of supplies and inventory, time reporting, and use of contractors at Facilities Services appears to have adequate internal controls. Proper approvals and separation of duties were in place, which was supported by a limited scope validation of the requisitions, receipts, and timesheets.

We did note that FM Track effort reporting was not being completed in a timely manner, leading to significant delays in work order closure and recharge billing. Further, we identified potential inefficiencies in the design of the custodial procurement and receiving process, as up to six different individuals were involved in processing requisitions for supply orders. The receiving process for inventory orders appears to require significant effort and contains duplicative procedures.

Additional information on the observations identified is detailed in the body of the report.

I. BACKGROUND

As a planned audit for Fiscal Year 2014-2015, Audit and Advisory Services (AAS) conducted a review to assess the internal controls at Facilities Services. Facilities Services supports the University's operational and maintenance needs, including buildings, energy, custodial services, and grounds. Facilities Services are organized into East and West campuses. The East Campus includes the Mission Bay Campus, Mission Center Building, Buchanan Dental Center, 654 Minnesota, Oyster Point, and Hunters Point. The West Campus includes Parnassus Campus, Laurel Heights, and Mt. Zion Hospital. Each campus is managed by an Associate Director who reports to the Director of Operations, with day and night shifts managed by superintendents and supervisors. Facilities Services utilizes the FM Track system to track work orders, to help manage inventory, and to track effort reporting and other associated costs for recharge billing.

In recent years, there have been a number of reviews and investigations within Facilities Services with numerous recommendations for process improvements. The intent of this review was to assess the current design of selected processes to determine the adequacy of internal controls. As the focus of the review was primarily on the process design, limited sampling and validation was performed. The review also assessed whether the controls implemented as a result of prior reviews and investigations are efficient.

II. AUDIT PURPOSE AND SCOPE

The objectives of the review were to (1) evaluate and validate the design of the internal controls over time reporting, use of contractors, and procurement of supplies and inventory; and (2) evaluate the use of resources and existing internal controls in place to identify opportunities for efficiencies.

To conduct our review the following procedures were performed:

- Reviewed Facilities Services Department Business Process Guide and approval matrix to gain an understanding of the established procedures on purchasing, receiving, time reporting, and use of contractors;
- Interviewed managers and personnel within Facilities Services to further understand the established procedures, differing practices between units, and the details of the roles for various approval levels;
- Reviewed relevant policies on materiel management, payroll, and documentation requirements in support of financial transactions, as well as BearBuy training materials;
- Reviewed a sample of BearBuy requisitions, purchase orders, and receipts for inventory purchases and contract services to assess the approval workflows;
- Reviewed a sample of Huntington Business System (HBS) timesheets and FM Track effort reports to validate the information captured and the approval flows; and
- Documented and reviewed process flows, identifying key controls, additional controls, and supplementary processes to determine that the controls as designed are effective and evaluate opportunities for efficiencies.

The scope of the audit was limited to the specific procedures described above and related to requisitions, purchase orders, receipts, and timesheets from July to October

2014 and did not include detailed testing of associated transactions. As such, work completed is not intended, nor can it be relied upon to identify all instances of potential irregularities, errors, and control weaknesses that may occur in areas not covered in this review. Fieldwork was completed in December 2014.

III. **CONCLUSION**

Based on the work performed, the processes for procurement of supplies and inventory, time reporting, and use of contractors at Facilities Services appear to have sufficient controls. Proper approvals and separation of duties were in place, which was supported by a limited scope validation of the requisitions, receipts, and timesheets.

We did note that FM Track effort reports were not being completed in a timely manner, leading to significant delays in work order closure and recharge billing. Further, we identified potential inefficiencies in the design of the custodial procurement and receiving process, as up to six different individuals were involved in processing requisitions for supply orders. The receiving process for inventory orders appears to require significant effort and contains duplicative procedures in which the inventory warehouse analysts are required to travel regularly to Parnassus and Mission Bay to meet the delivery trucks, and sign off on the receipt on two different systems.

IV. **OBSERVATIONS AND MANAGEMENT CORRECTIVE ACTIONS**

A. **FM Track Effort Reporting**

Custodial Supervisors are not completing FM Track effort reporting for staff custodians and IMPEC contractors timely, leading to delays in recharges.

The review noted that the FM Track effort reporting for custodians and IMPEC contractors are not being completed or are often late, leading to significant delays in recharging clients. This may be due to Custodial Supervisors in the East and West Zones being expected to populate and sign off for 12-18 custodians as well as IMPEC contractors on a weekly basis within FM Track, resulting in a significant workload.

FM Track effort reporting is used to track hours charged to work orders completed by Facilities Services. The hours charged to work orders are used to determine billable hours in recharges to the client units.

Not timely completing the work orders with the actual billable time impairs Facilities Services' ability to accurately and timely recharge their clients.

Management Corrective Actions

1. Facilities Services has manually entered the missing FM Track effort reports going back to July 1, 2014 and processed the recharges.
2. Facilities Services is in the process of piloting a program of installing iPad stations at changing areas and training custodians in their use. Once trained, the custodians will be expected to be accountable for completing their own FM Track effort reporting for review by the Supervisors. By July 1, 2015,

Facilities Services will evaluate the viability of expanding the pilot program to all custodial staff.

B. Supply Purchase Approval Flow

There are several additional reviewers and approvers in the procurement process for custodial purchases beyond the established requirements which are redundant and lead to increased time and effort.

Review of 10 BearBuy requisitions for custodial supplies identified that the review or approval of six different individuals was required before the requisition was processed. The six different BearBuy roles are as follows:

- 1) Custodial supervisor as Shopper 1;
- 2) Inventory warehouse analyst as Shopper 2;
- 3) Finance Service Center purchasing analyst as Requester;
- 4) Finance Service Center Budget & Reporting analyst as a Pre-Approver;
- 5) Custodial Superintendent as Ad-Hoc Approver; and
- 6) Associate Director as Requisition Approver.

Further, two of these requisitions were for orders less than \$500, for which the BearBuy system does not require any review or approval besides the Requester.

Per BearBuy Quick Reference Guides, all requisitions \$500 or less are automatically approved after the Requester submits the order, while requisitions over \$500 require requisition approval before being dispatched as a purchase order. Requisition Pre-Approvers and Ad Hoc Approvers are optional and only added as needed.

While requiring multiple approvers provides additional control and may reduce error rates, it may also lead to inefficient use of resources and delays in processing orders.

Management Corrective Actions

Facilities Services will form a committee consisting of members from Facilities Services management and the Finance Service Center to assess various efficiency and process improvements. By September 30, 2015, the committee will determine whether the multiple individuals involved in the requisition approval process may be reduced with use of regular monitoring reports.

C. Supply Purchase Receiving Process

1. ***The process for verifying the receipt of inventoried supply orders requires unnecessary travel time.***

For inventoried custodial supply orders, the inventory warehouse analysts are responsible for meeting the delivery trucks and performing the receiving validation. As such, they are required to regularly travel from the inventory warehouse at the Medical Sciences Building at Parnassus to the delivery locations at UC Hall and Millberry Union at Parnassus and Genentech Hall at

Mission Bay to verify the receipt of goods. Once the delivery has been verified, the supplies are delivered to the various campus locations where they are verified again by the location owner. Requiring the inventory warehouse analysts to physically verify the receipt at multiple locations at least once a week creates an unnecessary travel burden, leading to lost productive time.

University of California Accounting Manual A-000-7 requires that evidence of receipt of goods or services be retained, either in the form of a departmental approval or receipt certification upon the invoice or in the form of a receiving report.

Management Corrective Action

Facilities Services will form a committee consisting of members from Facilities Services management and the Finance Service Center to assess various efficiency and process improvements. By September 30, 2015, the committee will evaluate the process to determine the necessity of keeping the current process or to recommend a different receiving process to reduce travel time.

2. The process for certifying the receipt of inventoried consumable supply orders appears duplicative as it requires data entry in two different systems.

Inventory warehouse analysts are required to duplicate supplies receipt information in two systems, Bear Buy, and FM track, to certify receipt of supplies. Facilities Services requires that a receiver locate the itemized packing slip, verify items and quantity received, and sign-off and send the packing slip to a Central Receiver. The Central Receiver then marks the BearBuy purchase order as having been received in the BearBuy system.

However, for purchase of items that are catalogued within the Facilities Services Inventory Warehouse, the warehouse analysts are also required to sign off on the printed purchase order and marks off the items as having been received within FM Track. Because custodial supply orders are mostly consumable goods that are delivered directly to the work sites, the items are immediately marked as having been sold as soon as they are marked as received in FM Track. The information does not appear to be used for inventory or tracking purposes and therefore the need to enter the information into FM Track may be unnecessary.

The receiving process as designed requires verification and sign off on two different systems by the warehouse analyst with minimal benefit, leading to inefficiencies.

Management Corrective Action

Facilities Services will form a committee consisting of members from Facilities Services management and the Finance Service Center to assess various efficiency and process improvements. By September 30, 2015, the committee will assess the existing receiving process and inventory

management system to determine the benefits of maintaining two separate systems for consumable custodial supplies.

If it is determined beneficial to maintain two systems, then an evaluation will be completed to determine the feasibility of developing an interface between BearBuy and the Inventory Management system.

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