

RIVERSIDE: AUDIT & ADVISORY SERVICES

June 24, 2014

To: Mike Miller, Associate Vice Chancellor
Facilities, Transportation, and Environmental Health & Safety

Subject: Internal Audit of Physical Plant

Ref: R2014-17

We have completed our review of Physical Plant in accordance with the University of California, Riverside Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2014-17 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your unit. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore
Director

cc: Audit Committee
Physical Plant Administration Director Artman
Physical Plant Operations Director Mueller

UNIVERSITY OF CALIFORNIA AT RIVERSIDE
AUDIT & ADVISORY SERVICES
MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2014-17

PHYSICAL PLANT

JUNE 2014

Approved by:

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**UC RIVERSIDE
PHYSICAL PLANT
INTERNAL AUDIT REPORT R2014-17
JUNE 2014**

I. MANAGEMENT SUMMARY

Based upon the results of work performed within the purpose and scope of the audit, it is our opinion that, overall, the system of internal controls within Physical Plant is operating satisfactorily and is generally in compliance with University policies and procedures.

Financial management, budgetary, and operating control practices and procedures are generally in place to ensure overall compliance with University policies and procedures as well as federal, state, and other requirements.

We observed an area that needs enhancement to strengthen internal controls and/or effect compliance with University policy.

Physical Plant does not have adequate records of actions taken in response to negative customer feedback or complaints received. (Observation III.B.)

This item is discussed later in this report. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

II. INTRODUCTION

A. PURPOSE

University of California, Riverside (UCR) Audit & Advisory Services, as part of its Audit Plan, performed a review of Physical Plant operations to evaluate compliance with University policies and procedures, efficiency and effectiveness of operations, and adequacy of certain internal controls.

The primary objective of our audit was to evaluate whether Physical Plant management processes and administrative procedures were adequate to provide reasonable assurance that operations were effective and efficient, in compliance with University policies and procedures, and resulted in reliable financial reporting.

Secondary objectives of the audit were to appraise the effectiveness of the customer feedback process in improving the quality of Physical Plant services and to evaluate the validity and reasonableness of the process

used in developing cost estimates for maintenance, repair, and light alteration/construction services requested by customers.

B. BACKGROUND

Physical Plant is a division within the Business and Administrative Services organization. Physical Plant's mission is to serve the UCR students, faculty, and staff by maintaining, operating, and repairing the physical aspects (facilities, utility systems, grounds, and other infrastructure) of the campus in a responsive, proactive, cost efficient and service-oriented manner that complements and enhances the instructional, research, and public service missions of the University.

Specific functional goals and objectives to fulfill its mission are organized under six groups:

- Plant Services Shops/Building Maintenance
- Energy Management/Utility Operations
- Building & Special Services
- Grounds Maintenance/Refuse Disposal/Recycling
- Customer Service/Building Commissioning
- Administrative Services

Physical Plant is responsible for the maintenance, operation, repair, and light alteration of campus facilities consisting of over 300 buildings in excess of 3.9 million square feet on 1,200 acres of land.

C. SCOPE

The scope of the review and evaluation of business processes and administrative procedures was limited to activities and operating practices prevailing during the current fiscal year.

The audit included review and analysis of selected data from the fiscal year (FY) 2010/2011 through FY 2012/2013. Due to the extensive range of financial activities and the considerable volume of financial data, not all identifiable transactions were reviewed. Furthermore, because of the nature of the audit's overall perspective, sampling methodology, and other inherent limitations, the procedures could not be relied on to ensure that errors or irregularities are detected, especially minor or isolated incidents.

The review of the customer feedback process covered customer feedback information available in the Facilities Work Order System for Physical Plant services rendered during FY 1999/2000 through FY 2012/2013 as well as during the period July 1, 2013 through March 31, 2014 in FY 2013/2014.

The review of the cost estimation process considered procedures currently being followed by Physical Plant to develop labor and material cost

estimates for maintenance, repair, and light alteration/construction services requested by customers.

D. INTERNAL CONTROLS AND COMPLIANCE

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- * effectiveness and efficiency of operations
- * reliability of financial reporting
- * compliance with applicable laws and regulations

Substantive audit procedures were performed during February through April 2014. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

III. OBSERVATIONS, COMMENTS, & RECOMMENDATIONS

A. Physical Plant Administration

Based on results of work performed within the purpose and scope of the audit, in our opinion, internal control within Physical Plant is operating satisfactorily and is generally in compliance with University policies and procedures.

Our assessment is based on results of the following procedures:

- Reviewed Physical Plant organizational and financial information.
- Met with management and discussed areas of potential concern.
- Obtained and evaluated management responses to an internal control questionnaire.
- Reviewed existing policies, procedures, and control activities for Physical Plant business processes including:
 - payroll and timekeeping
 - non-payroll expenditure transactions
 - travel and entertainment expenses
 - use of university property
 - accounting for equipment and supplies inventory
 - cash receipts and petty cash management
 - general ledger review and financial reporting
 - records management
 - information systems

- Evaluated whether internal accounting and administrative controls over key business processes are operating as intended and in compliance with University policy.
- Performed analytic review of Physical Plant expenditures for FY 2010/2011 through FY 2012/2013;
 - Selected certain departments and activity/account combinations for detailed review and analysis; and
 - Obtained and evaluated management's explanations for significant changes in the amounts and nature of expenditures.

We did not detect specific transactions that appeared to be particularly questionable when considering the amounts and nature of expenditures and we did not become aware of unusual or unexpected trends in the levels of expenditures in selected departments and activity/account combinations that were not explained to our satisfaction.

B. Customer Feedback

Physical Plant does not have adequate records of actions taken in response to negative customer feedback or complaints received.

COMMENTS

The Facilities Work Order System is a web-based system for all campus departments' Physical Plant service needs. The system allows submission of Trouble Tickets and Service Requests, as well as Requests for Estimates. Reporting features are also available for tracking work in progress, reviewing completed estimates, reviewing billing and financial information, and retrieving completed requests. The system includes a Customer Feedback feature that allows customers to rate the quality of Physical Plant services and leave comments about their experience interacting with Physical Plant.

In general, customers have been satisfied with the quality of Physical Plant services. This observation is based on our review of available customer feedback information for Physical Plant services rendered during 15 fiscal years (FY 1999/2000 through FY 2012/2013 and during nine months ended March 31, 2014 in FY 2013/2014). During 12 of these 15 years, more than 90% of customer feedback received was positive or neutral (less than 10% of feedback was negative). By contrast, during 3 years (FYs 2009/2010, 2011/2012, and 2013/2014), the proportion of negative feedback was relatively higher (11%, 17%, and 11%, respectively).

According to Physical Plant management, when negative customer feedback is received, the standard operating procedure is to send the assigned maintenance and repair crew back to the job to perform remedial work to satisfy the customer. However, the audit did not find adequate documentation of actions taken by Physical Plant to address issues raised in negative customer feedback or complaints received.

RECOMMENDATIONS

Physical Plant should properly document and maintain adequate records of actions taken to respond to issues raised by customers. Information received through the Customer Feedback process should be used to initiate corrective action and preventive measures as part of an overall service quality improvement program.

MANAGEMENT RESPONSE

Physical Plant will develop a specific work order code in our system (FAMIS) to document action taken by Physical Plant in response to customer feedback responses. Upon receipt of a customer comment of "Poor" or lower a work order will be generated for follow-up and assigned directly to the corresponding shop supervisor. All follow-up action taken by the supervisor in response the sub-standard customer comment will be documented on the work order and archived in FAMIS where they can be easily queried and reported on. An annual report of such work orders will be prepared and reviewed by the Director of Physical Plant. This process will be in place and fully implemented in the winter of 2014.

C. Cost Estimates

Based on our understanding of procedures currently followed by Physical Plant to estimate the labor and material costs of maintenance, repair, and light alteration/construction services requested by customers, in our opinion, the process of developing cost estimates appears to be valid and reasonable.

Physical Plant performs maintenance and repair on campus facilities, utilities, and infrastructure and undertakes certain alteration or renovation projects upon request. The Facilities Work Order System enables customers to electronically submit requests for estimates as they provide adequate detailed descriptions of work to be performed. Physical Plant appropriately assigns personnel who have had practical experience performing maintenance jobs, repairs, or renovations to estimate the labor time and material quantities needed to complete the project. Physical Plant applies specific campus recharge rates to labor time and anticipated actual costs to material quantities and enters the detailed cost estimate into a special screen in the system. Customers can review the cost estimate and choose to accept the proposal, reject the proposal, or modify the scope of work to request an adjusted estimate.