

May 18, 2020

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**Subject: *Heath System Facilities Recharges
Report 2020-14***

The final report for Heath System Facilities Recharges, Report 2020-14, is attached. We thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
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Attachment

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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Health System Facilities Recharges
Report No. 2020-14
May 2020

FINAL REPORT

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ATTACHMENT B – Memorandum of Understanding--Facilities Support Services for UCSD School of Medicine State Funded Facilities – Pricing Schedule

I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of Health System Facilities Recharges as part of the approved audit plan for Fiscal Year 2019-2020. The objective of our review was to determine whether internal controls provide reasonable assurance that process for Health System Facilities Recharges are effective, result in accurate billing to customers, and are established in accordance with policy.

Based on our review, we concluded that internal controls did not provide reasonable assurance that processes for Health System Facilities Recharges were effective, resulted in accurate billings to customers, and that recharges were established in accordance with policy. Specifically, the rates currently used by Facilities Engineering (FE) to recharge for services provided to campus-owned buildings were developed in FY 2009-10, and FE was unable to demonstrate or explain how those rates were developed. We also noted that FE services provided to campus-owned buildings were recharged to campus departments using pricing that was not applied uniformly. Further, the recharge agreements that are being used to support the recharges to Psychiatry and for the remaining campus-owned buildings expired in June 2012 and September 2012, respectively, and have not been renewed since that time

It is important that FE be in a position to demonstrate that recharges are cost-based. Insufficient rates would effectively result in the Health System subsidizing costs associated with campus-based activities. Conversely, overcharging for these services would result in the campus subsidizing Health System activities. In some cases, Facilities Management maintenance costs charged to campus units may be passed on to third parties through clinical service agreements to government or private partners. Lack of support for how these recharge rates were developed could result in cost disallowances.

A. Recharge Rate

FE management will:

1. Re-evaluate the costs of services being provided to the Campus-owned buildings and revise their recharge rates to help ensure full cost recovery.
2. Review recharge activity annually, and adjust rates in the event that billings led to material surpluses or deficits.
3. Ensure that identical goods and services carry identical prices for all customers.

Observations and related management action plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of Health System Facilities Recharges as part of the approved audit plan for Fiscal Year 2019-2020. This report summarizes the results of our review.

At the UC San Diego Health (UCSH) Hillcrest Medical Center, Health System Facilities Engineering (FE) is responsible for all routine or as-needed maintenance, custodial work, and ground keeping for buildings at the Hillcrest Medical Center that are owned by the Health System and are used for the primary purpose of patient care. These buildings include the main hospital and its south and west wings, the Bannister Family House, Central Plant, Facilities Engineering, the building at 410 Dickinson Street, 50% of the Multi-Purpose Building and several other surrounding administrative buildings that support hospital functions.

Eleven (11) buildings located at the Hillcrest Medical Center site are owned by the general UCSD Campus and used primarily to support the education and research missions of the University. These buildings include 50% of the Multi-Purpose Facility, the Magnetic Resonance Imaging (MRI) Research Facility (formerly known as the Bydder Laboratory), the North Annex Replacement Facility, the Clinical Teaching Facilities A, B and C, the Surgery Research Laboratory, the Theodore Gildred Facility, and the buildings located at 140 Arbor Drive and 125 Dickinson Street. While ongoing maintenance of the buildings is ultimately the responsibility of UCSD Facilities Maintenance, FE has entered into two agreements with the campus to provide maintenance services for ten of these buildings at agreed-upon recharge rates. One agreement (Agreement 1 in Table 1 below) covers nine of the buildings and the other agreement (Agreement 2 in Table 1 below) covers 140 Arbor Drive (Bachman Building). An agreement to provide services to the 125 Dickinson Street building was not located. The value of the agreements is summarized in Table 1.

Table 1. Summary of Recharge Agreements

Agreement Number	Address	Recharged Entity per Agreements	Recurring Annual Recharges
1	130 Dickinson Street	Surgery Research Laboratory	\$ 38,914
1	210 Dickinson Street	Clinical Teaching Facilities A	\$101,113
1	212 Dickinson Street	Clinical Teaching Facilities B	\$101,113
1	214 Dickinson Street	Clinical Teaching Facilities C	\$101,113
1	216 Dickinson Street	Medical Library	\$ 27,170
1	220 Dickinson Street	Theodore Gildred Facility	\$ 97,803
1	350 Dickinson Street	North Annex Replacement Facility	\$ 44,367
1	402 Dickinson Street	Multi-Purpose Facility	\$ 67,485
1	406 Dickinson Street	MRI Research Facility	\$ 8,487
2	140 Arbor Drive	Outpatient Psychiatry Service	\$114,250
N/A	125 Dickinson Street	Not Available	

From an accounting standpoint, the expenses associated with services performed by Facilities Engineering at the Hillcrest footprint are accounted for in four distinct cost centers/IFIS indexes: MCH8857 (Building Operations), MCH8858 (Grounds Maintenance), MCH8859 (Plant Operations), MCH8868 (Custodial Services). These indexes are accounted for under fund 63000A – Hospital Income. The expenses posted to these indexes are comprised of costs associated with services provided to Health System and Campus owned buildings located on the Hillcrest Medical Center footprint. Each year, Health System Decision Support works with the Chief Administrative Officer for Facilities, Capital Management and Hospital Support Services to estimate FE’s budgeted expenses and recharges for the following fiscal year, to ensure that hospital revenues are sufficient to cover those estimated expenses. Budgeted and actual recharges include recurring recharges assessed annually under the recharge agreements with the campus, as well as one-time recharges for performing services on campus owned buildings that go beyond the scope of the two recharge agreements. The table below summarizes the financial activity in these cost centers for FY 2018-19:

Table 2. Cost Center Financial Activity – FY 18/19

Cost Center	Fiscal Year 2018/2019			
		Budget	Actual	Variance
MCH8857	Expenses	\$4,185,231	\$4,583,747	(\$398,516)
	Recharges	\$191,302	\$306,317	\$115,015
	Total	\$3,993,929	\$4,277,430	(\$283,501)
MCH8858	Expenses	\$268,638	\$254,374	\$14,264
	Recharges	\$94,799	\$63,834	(\$30,965)
	Total	\$173,839	\$190,540	(\$16,701)
MCH8859	Expenses	\$4,087,942	\$4,320,615	(\$232,673)
	Recharges	\$656,097	\$575,327	(\$80,770)
	Total	\$3,431,845	\$3,745,288	(\$313,443)
MCH8868	Expenses	\$227,952	\$253,980	(\$26,028)
	Recharges	\$219,672	\$220,481	\$809
	Total	\$8,280	\$33,499	(\$25,219)

University Policy BFB-A-47, University Direct Costing Procedures, sets forth general procedures for direct costing in order to improve uniformity and consistency in the recording of direct costs¹ throughout the University. This policy addresses recharges, and separates recharge activity into three different categories. The first category of recharge, under which FE is included, is defined as “The cost charged to a University department for specific goods or services provided to another University department. Included in this category are goods and services provided by auxiliary and service enterprises, academic support units, plant services departments, and other departments-other than central campus administrative offices-with approved recharge budgets.” The policy provides the following requirements for this type of recharge:

¹ For purposes of this policy, Direct Costs are defined as expenses that “are recorded in the general ledger by authorized transactions for initial payments (e.g., invoices, payrolls), recharges from University administrative and service units, and adjustments of expenditures (cost transfers).”

1. All elements of cost resulting from the goods or services provided shall be recharged to users based upon a previously authorized established price or standard pricing method uniformly applied to all users. In complex pricing situations, such as for custom work, price computations shall be based on established wage rates and costs of materials and equipment used. Identical goods and services must carry identical prices for any and all customers, with the exception of dual-pricing structures for Federal and non-federal activities.
2. Recharges shall not be based on prorations or other indirect methods of cost allocations.
3. Recharges shall be related to the cost of goods or services furnished and must provide for the recovery of actual costs, including applicable depreciation. Prices shall be adjusted at least annually to eliminate any surpluses or deficits. Every effort should be made to ensure that year-end surpluses greater than one month of the recharging unit's activity.
4. All recharge activities shall publish a schedule of rates and prices which shall be reviewed and approved by the Chancellor or his/her delegate.

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of our review was to determine whether internal controls provide reasonable assurance that process for Health System Facilities Recharges are effective, result in accurate billing to customers, and are established in accordance with policy. In order to achieve our objective, we performed the following:

- Reviewed Business and Finance Bulletin (BFB)-A-47—University Direct Costing Procedures, University Contract & Grant Manual;
- Reviewed the Medical Center policies relating to facilities;
- Reviewed Blink guidance on recharge facilities;
- Interviewed the following:
 - Programmer Analysts, Financial Analysts, Facilities Director, Senior Director at Medical Center Facilities Engineering and Senior Manger Financial Services at Campus Facilities offices;
 - Medical Center Accounting personnel;
 - Financial Analysis Office (FAO) Costing Policy Manager and Executive Director;
 - Campus Business and Financial Services personnel; and
 - Campus and Medical Center Transportation personnel;
- Reviewed journal vouchers for recharge billings;
- Reviewed the memorandum of understanding (MOU) for services provided to Bachman Building **(See Attachment A)**;
- Reviewed the MOU for services provided to other campus-owned buildings within the Medical Center footprint;
- Compared recharge billing data per the recharge center to the recharge recorded in the operating ledger;
- Reviewed purchase orders and payments for pass-through costs;
- Evaluated the reasonableness of assumptions in the memoranda of understanding for services provided; and
- Evaluated recharge rates associated with the Bachman Building.

IV. CONCLUSION

Based on our review, we concluded that internal controls did not provide reasonable assurance that processes for Health System Facilities Recharges were effective, resulted in accurate billings to customers, and that recharges were established in accordance with policy. Specifically, the rates currently used by FE to recharge for services provided to campus-owned buildings were developed in FY 2009-10, and FE was unable to demonstrate or explain how those rates were developed. We also noted that FE services provided to campus-owned buildings were recharged to campus departments using pricing that was not applied uniformly. Further, the recharge agreements that are being used to support the recharges to Psychiatry and for the remaining campus-owned buildings expired in June 2012 and September 2012, respectively, and have not been renewed since that time. These issues are discussed in further detail below.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	Recharge Rate
FE could not provide the cost basis for the recharges that they were assessing on campus-owned buildings. Further, FE did not review the rates on an annual basis to ensure that they were sufficient to cover related costs, and used disparate rates to charge different campus customers for similar services, in violation of policy.	
Risk Statement/Effect	
Insufficient recharge rates can contribute to financial deficits. Charging different campus customers different rates is a violation of policy, and could lead to questions of fairness for campus customers. These processes could also have downstream impacts to recharge customers and result in contractual disallowances.	
Management Action Plan	
A.1	FE will re-evaluate the costs of services being provided to the Campus-owned buildings and revise their recharge rates to help ensure full cost recovery.
A.2	FE will review recharge activity annually, and adjust rates in the event that billings led to material surpluses or deficits.
A.3	FE will ensure that identical goods and services carry identical prices for all customers.

A. Recharge Rate – Detailed Discussion

University policy requires that recharges be related to the cost of goods or services furnished and provide for the recovery of actual costs, and that prices be adjusted at least annually to eliminate any surpluses or deficit greater than one month of the recharging unit's activity. Policy further requires that identical goods and services carry identical prices for any and all customers.

In FY 2009-10, FE entered into two agreements to provide maintenance services to campus-owned buildings. The first agreement, effective July 1, 2009, was with the Department of Psychiatry to provide maintenance services to the building located at 140 Arbor Dr., which Psychiatry uses to provide outpatient psychiatric services. A list of recharge rates included in that agreement are provided in **Attachment A**. The second agreement, effective September 2, 2009, was with Facilities Management and the UCSD School of Medicine to provide maintenance for the remaining campus-owned buildings that are located on the Hillcrest footprint. A list of recharge rates included in that agreement are provided in **Attachment B**. Both of these agreements were similar in that they were effective for a three-year period, and both had a clause indicating that the rates would increase by 3% annually.

Since the time that these agreements were executed, FE has continued to charge the same rates as those included in the original agreements without any annual adjustments, although the term of the agreement has expired. During our review, FE was not able to provide the basis for how the original rates were calculated, either because records were not retained or have since been lost. Therefore, we concluded that the rates currently being used by FE are not in strict compliance with UC policy because they are not based on current costs, and are not reviewed and adjusted annually to ensure full cost recovery. We also noted that FE charged different rates under the agreement with the Department of Psychiatry (**Attachment A**) than they did under the terms of the agreement with Facilities Management and the School of Medicine (**Attachment B**), which is not in accordance with the policy requirement that identical services carry identical prices for any and all customers.

It is important that FE be in a position to demonstrate that recharges are cost-based. Insufficient rates would effectively result in the Health System subsidizing costs associated with campus-based activities. Conversely, overcharging for these services would result in the campus subsidizing Health System activities. In some cases, FM maintenance costs charged to campus units may be passed on to third parties through clinical service agreements to government or private partners. Lack of support for how these recharge rates were developed could result in cost disallowances.



FY 2008/09									
									Total Facilities
Facility	Function	Net Usable - parking sq.ft.	Parking sq.ft.	Net Usable sq.ft.	Custodial Cost / sq. ft.	Maint. Cost / sq. ft.	Maint. Cost / sq. ft.	Occupancy	Support
140 Arbor Dr.	Outpatient Psychiatric Services								
	Building Maintenance Charges			32,929			\$1.76	100%	\$57,955.08
	Parking Maintenance Charges		26,777			\$ 0.50			\$13,388.52
	Custodial Charges	26,921			\$1.28			100%	\$34,458.84
	Grounds Charges								\$8,448.00
									\$114,250.44
Cost for Facilities Services For Buildings listed above are as follows:									
	Building Maintenance	1.76 per Sq. Ft.							
	Parking Maintenance	.50 per Sq. Ft.							
	Custodial Services	1.28 per Sq. Ft.							
	Grounds Maintenance	Contract Cost							
Costs for Healthcare support beyond routine items listed in Attachment B will be based on an hourly rate listed below, and material at cost plus 10%.									
	Lead- Electrician, Systems Opr, Plumber, Maint Mech	\$75.10							
	Electrician, Systems Operator, Plumber, Maint Mech	\$69.86							
	Lead- Carpenter, Painter	\$67.95							
	Carpenter, Locksmith, Painter	\$63.25							
	Sr. Building Maintenance Worker	\$42.43							

Maintenance, Landscape and Outsourced Housekeeping FY 2009/10

Facility	Function	Housekeeping		Maint. & Landscape	Occupancy	Total Facilities
		MGSF	/sqr. ft.	/sqr. ft.		Support
Hillcrest						
130 Dickinson St.	Surgery Research Lab	15,083	\$1.08	1.50	100%	38,914.14
210 Dickinson St	Clinical Teaching Facility Building A	39,191	\$1.08	1.50	100%	101,112.78
212 Dickinson St.	Clinical Teaching Facility Building B	39,191	\$1.08	1.50	100%	101,112.78
214 Dickinson St.	Clinical Teaching Facility Building C	39,191	\$1.08	1.50	100%	101,112.78
216 Dickinson St.	Medical Library	10,531	\$1.08	1.50	100%	27,169.98
220 Dickinson St.	Theodore Gildred Facility	37,908	\$1.08	1.50	100%	97,802.64
350 Dickinson St.	Faculty Office Building (NARF)	29,578	n/a	1.50	100%	44,367.00
402 Dickinson St.	Multipurpose Facility	44,990	n/a	1.50	100%	67,485.00
406 Dickinson St.	Bydder Lab	5,658	n/a	1.50	100%	8,487.00
		<u>261,321</u>				<u>587,564.10</u>
La Jolla						
9415 Campus Pt.	Eye Center Complex	46,599	n/a	1.50	100%	69,898.50
9350 Campus Pt.	Moore's Cancer Center	<u>220,767</u>	n/a	1.50	100%	<u>331,150.50</u>
		<u>267,366</u>				<u>401,049.00</u>
<p>Costs for Healthcare support beyond routine items listed in Attachment B will be based on an hourly rate listed below, and material at cost plus 10%.</p>					Total Cost	<u><u>988,613.10</u></u>
Lead- Electrician, Systems Operator, Plumber, Maintenance Mechanic			\$75.10			
Electrician, Systems Operator, Plumber, Maintenance Mechanic			\$69.86			
Lead- Carpenter, Painter			\$67.95			
Carpenter, Locksmith, Painter			\$63.25			
Sr. Building Maintenance Worker			\$42.43			