PROJECT SUMMARY

Overview

Texas A&M University – Kingsville has controls and processes in place over University Facilities’ operations to provide reasonable assurance that resources are used efficiently and effectively and in compliance with laws, policies, regulations, and rules except in the areas of warehouse inventory management and employee safety training. Weak controls over warehouse inventory operations increase the risk of inappropriate and inefficient use of inventory resources. The absence of safety training could result in employees not being prepared to handle hazardous materials, creating an increased risk of injuries and property damage. Other improvements needed include further development of the Engineering and Planning billing rate and associated procedures, timely close out of work orders, and documentation of construction project management.

University Facilities has approximately 100 full-time staff and had operating expenses of approximately $9.4 million according to the fiscal year 2010 annual financial report. The department performs a wide range of services to the University including building maintenance, custodial, utilities, grounds maintenance, and general services and minor construction projects.

Summary of Significant Results

Warehouse Inventory

Controls over warehouse inventory processes are weak and require improvement to ensure that resources are properly accounted for and used efficiently and effectively to achieve the department’s objectives. Improvements needed include completion of comprehensive written inventory control procedures, maintaining updated and accurate perpetual inventory records, periodically counting and reconciling physical inventory to the inventory records, and proper management of surplus and obsolete inventory items. Weaknesses in controls over the
Physical Plant’s warehouse inventory operations increase the risk for inappropriate and inefficient use of inventory resources.

**Employee Safety Training**

Adequate controls are not in place over employee safety training processes to ensure that all necessary safety training is completed and documented in a timely manner. New employees potentially exposed to hazardous chemicals and bloodborne pathogens did not receive training timely after hire and annual recurring training was not taken by current employees. Safety training is an important preventative control to ensure the safety of all affected employees.

**Summary of Management’s Response**

Management acknowledges the need for improvement in the areas of inventory management and safety training and has begun implementing action plans to address all audit recommendations.

Policy and control procedures will be finalized for shop inventory and additional training will be arranged for shop staff on the tracking of inventory. The policy will identify the need for annual counts and random spot checks and procedures will include a separation of duties requirement during all counts. Additionally, the University is considering the potential for outsourcing inventory management.

Shortly after the audit, a full annual count was completed as well as a complete purge of obsolete materials from shop stock to surplus. Project and consigned materials were separated from shop stock for easier identification and counting. On-hand adjustments for the annual count were conducted and entered into TMA Systems. Documentation has been filed for perpetual inventory records.

Employee safety training has been reviewed and steps have been taken to ensure the gaps between hiring and training are closed. Upon hire, employees required to work with hazardous chemicals and/or may be exposed to bloodborne pathogens will automatically have their TrainTraq profiles updated to include these mandatory trainings. Follow-up trainings will also be assigned and tracked through TrainTraq.

**Scope**

The review of financial and management controls within the University Facilities’ operations focused on the areas of warehouse inventory management, billing rates and cost
allocations, construction administration, procurement card processes, employee certifications, safety training, and work order system and deferred maintenance processes. Transactions and activities related to these areas were reviewed for the period of June 1, 2010 through May 31, 2011. Fieldwork was conducted in July 2011.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Warehouse Inventory

Observation

Controls over warehouse inventory processes are weak and require improvement to ensure that resources, valued at approximately $101,000 as of the audit, are properly accounted for and used efficiently and effectively to achieve the department’s objectives. Inventory listings in use were not accurate. The quantity on hand for seventeen of thirty-six (47%) items tested did not agree to the inventory listing with variances being greater than 10% of physical count and $100 in value. A process for periodically reconciling between the inventory listing and physical inventory counts has not been formalized. In addition, construction surplus items were identified which were not included in the inventory listing and obsolete items were noted throughout the Physical Plant shops. Two Physical Plant shops, Grounds and Carpentry, reported no inventory according to the listing although inventory items were held in the shops. The lack of controls and inaccurate information also limits the ability to establish accurate inventory reorder points for items which are regularly kept in stock.

Comprehensive written procedures regarding inventory processes are currently being drafted. In addition, the University implemented a newer version of The Maintenance Authority (TMA) work order system in November 2010 and at that time began using the inventory module of the software. Physical Plant employees do not yet have a full understanding of the inventory process and the necessary related controls.

Lack of adequate controls over the Physical Plant’s warehouse inventory operations increases the risk for inappropriate and inefficient use of inventory resources. The Committee of Sponsoring Organizations (COSO) Report, Internal Control – Integrated Framework, states that as a physical control – “Equipment, inventories, securities, cash and other assets are secured physically, and periodically counted and compared with amounts shown on control records.”
1. Warehouse Inventory (cont.)

**Recommendation**

- Complete written procedures regarding inventory management including performance of periodic inventory spot checks and an annual full inventory count. Ensure the procedures are disseminated to all Physical Plant employees.

- Ensure current inventory items in the Physical Plant shops are correctly accounted for in the warehouse inventory listing.

- Perform both spot and annual inventory counts in accordance with procedures. Promptly investigate and correct all differences noted.

- Add excess supplies that have continuing value to the University such as those remaining from construction projects, other departments or Physical Plant activities to the inventory records to ensure those items are properly safeguarded and accounted for.

- Identify all obsolete items and send to surplus in order to reduce the amount of inventory that must be tracked and controlled.

- Ensure warehouse staff has the necessary knowledge, skills and abilities to perform their duties, and provide training as needed on the work order system and inventory management processes.

**Management’s Response**

- Written procedures on inventory management will be reviewed to ensure necessary information regarding spot checks and annual counts are included. These procedures will be finalized and disseminated to all staff.

- A full count was recently completed and all inventory items were entered into the TMA System. Within TMA, separate warehouses were created for easier tracking of non-physical plant stock. All project stock and consigned items were also physically separated from shop stock for better identification, counting and reconciliation. Obsolete items were removed from shop inventories and will be auctioned according to University policy.

- Additional training for shop personnel will be provided and documented.

- Physical Plant is also investigating the feasibility and benefits of an integrated supply system. Potential benefits include expert management of warehouse operations, reduced just-in-time runs for needed supplies, reduction of inventory costs, agreed-upon pricing
1. Warehouse Inventory (cont.)

from a wholesale distributor, and onsite personnel to assist with product needs.

The basic recommendations have been addressed. The decision on outsourcing inventory management will be made before September 1, 2012.

2. Employee Safety Training

Observation

Monitoring processes are not in place to ensure that all necessary safety training is completed in a timely manner. Three of three (100%) newly hired Physical Plant employees did not complete initial bloodborne pathogen (BBP) training in a timely manner. The time between the initial hire date and training date was 123 and 138 business days for two of the employees while the third employee had no evidence training was completed during his six months of employment. Eight of eight (100%) newly hired Physical Plant employees did not receive initial hazard communication (HazCom) training. These employees were hired between June 2010 and February 2011.

Three of ten (30%) Physical Plant employees and twenty of twenty (100%) Physical Plant employees did not receive annual BBP and HazCom refresher training, respectively. HazCom refresher training is typically provided during the Annual Safety Stand Down Day coordinated by the Environmental Health and Safety Office. Although the Safety Stand Down Day was held in late 2010, HazCom training was not included as a topic. Neither HazCom nor BBP training was provided as stand-alone training during the past year.

The Physical Plant does not have a process in place to ensure employees receive initial and refresher trainings in a timely manner. Texas Administrative Code, Title 25 Health Services, Rule 295.7 requires that employers develop a hazard communication program to provide training for new or newly assigned employees which must be completed prior to assigning any duties that may result in exposure to hazardous chemicals. Without periodic training, employees may not be fully prepared to handle situations involving hazardous materials resulting in increased risk of injuries and property damage. University procedures require employees assigned to specific departments to complete both initial and annual refresher courses for BBP and HazCom training.
Recommendation

2. Employee Safety Training (cont.)

Develop standardized guidelines for newly hired University Facilities’ employees including a timeframe in which necessary trainings must be completed. Continue current efforts to utilize the automated features in TrainTraq to monitor and track employee safety training, both initial and recurring, for timely completion.

Management’s Response

The basic recommendations have been addressed. Physical Plant has worked with the Departments of Risk Management and Human Resources to ensure all new personnel that require HazCom and bloodborne pathogen training receive it in a timely manner, via TrainTraq. TrainTraq will also be utilized for the tracking of all annual refresher training.

3. Billing Rates

Observation

Certain rate procedures are not in place and the Engineering and Planning billing rate is not inclusive of all overhead costs.

Comprehensive written procedures have not been developed for allocation of utility costs or establishment of the Engineering and Planning project management rate. In addition, the Engineering and Planning project management rate, first developed in 2010 as a result of separating Engineering and Planning activities from Physical Plant, was based solely on salary and benefit expenses incurred in 2010 as compared to total vouchers paid on construction projects for the past three fiscal years. This rate should be inclusive of all overhead costs incurred in overseeing construction projects including administrative salaries, depreciation, office supplies, and other indirect service expenses. Service rates in place for Physical Plant operations appeared to be inclusive of necessary costs and had been reviewed within the last year.

Adequate cost allocation processes are important to ensure that customers are properly billed and that University Facilities receives appropriate cost recovery for services performed. This also helps ensure that education and general funds are not indirectly used to subsidize auxiliary enterprises, which is prohibited by the state’s General Appropriations Act. A&M System Regulation 21.01.05, Service Departments, states that each System member is responsible for establishing user rates, maintaining proper documentation of rate calculations, verifying that rates are not discriminatory towards different groups of users, and periodically reviewing operations for compliance.
3. Billing Rates (cont.)

Recommendation

Develop comprehensive procedures for the allocation of utility costs and development of the Engineering and Planning project management rate. This documentation should include references to supporting schedules and accounting records used to establish rates and allocate costs including indirect costs such as overhead and depreciation.

Ensure the Engineering and Planning project management rate is inclusive of both direct and indirect costs such as salaries and wages, depreciation, and office supplies. Retain documentation used in the development of the rate, including supporting schedules and accounting records used to establish the rate. Review and adjust the rate, as necessary, on an annual basis.

Ensure the requirements in A&M System Regulation 21.01.05, Service Departments, are incorporated into the rate setting and documentation process.

Management’s Response

The University has developed a robust model for charging of utilities and will document this methodology and the procedures used to bill the various entities. Management will also develop a project charge rate based on the same model currently used by Physical Plant operations for their services which will include overhead expenses. These procedures and rates will be created, documented, reviewed and approved for implementation by August 31, 2012.

4. Work Order System

Observation

Physical Plant work orders are not being closed out in a timely manner. An aging of open work orders as of July 5, 2011 revealed that 20% (387 of 1906) were greater than 60 days old. The Heating, Ventilation, and Air Conditioning and Plumbing shops comprised 61% of the open work orders. It is management’s goal to complete 90% of work orders within thirty days of submission of the order.

Management indicated the length of outstanding work orders could be due to delays in finalization of documentation. While the work may be performed timely, shop supervisors and/or superintendents must complete documentation within the University’s work order system to fully close out the work order. Only upon full close out of
a work order does the billing cycle begin for Physical Plant to receive payment for services. The work order system allows entry of both work completion dates and work order close out dates; however, the work completion dates are not regularly entered.

According to the National Association of College and University Business Officers, a work order system is a comprehensive tool for managing operations and maintenance through the process of budgeting, initiating, planning, scheduling, executing, and reporting of work. Poor turnaround in the completion of physical work or documentation close out could result in customer dissatisfaction and unnecessary delays in the billing cycle.

Recommendation

Research existing open work orders and take necessary actions to close out aged work orders. Implement a procedure to regularly monitor and address open work orders in a timely manner. Ensure dates the work was actually completed are entered in the University’s work order system to allow better tracking of work order turnaround, both for physical completion of the work as well as final close out of the order.

Management’s Response

*Physical Plant has been implementing new processes and procedures within a new Work Center that will help ensure all work orders are closed in a timely manner after completion. An aging work orders report will be printed and reviewed monthly to determine if any action is necessary on open work orders. The Work Center will also modify current operating procedures regarding the recording of both work order completion dates and work order closed dates.*

*The programmatic aspects of this action have been completed. The actual management review has been delayed due to two recent key vacancies. Once these vacancies are filled, the complete solution will be implemented. We anticipate that the vacant positions will be filled by June 1, 2012.*

5. Construction Project Management

Observation

*Construction project management file documentation needs strengthening.*

Documentation of construction project management was not administered in accordance with certain provisions of the A&M System “Uniform General and Supplementary Conditions” for
5. Construction Project Management (cont.)

Construction projects. Testing was performed on six of the forty-one (15%) construction projects completed during the audit period which had a total value of approximately $5.1 million. Six of six (100%) projects had no documented evidence that inspections took place prior to substantial completion of the work or were inspected after completion of the final punch list. Three of six (50%) projects had no documented evidence that the contractor issued a contractor's general warranty and guarantee to make repairs within one year from the date of substantial completion of work.

Management has implemented the use of a checklist to provide general guidance for management of construction projects; however, monitoring processes are not in place to ensure all required items are included in the construction project files. Without supporting documentation, the University could encounter difficulty in proving proper, thorough inspections were performed and requiring contractors to perform repairs as required by the general warranty and guarantee.

Recommendation

Ensure documentation of project inspections is retained for inspections performed both during construction as well as after completion of the final punch list. Maintain evidence of each contractor's general warranty and guarantee to make repairs within one year from the date of substantial completion of work.

Management’s Response

The basic recommendations have been addressed. As an immediate response, management has developed a more sophisticated file management system which includes checklists and documented milestones. Training on project documentation requirements has been and continues to be required of all project managers. The best solution will involve a construction project management system. The Ebuilder program has been introduced and is being used on a trial basis. The A&M System Facilities Planning & Construction division is also pursuing a programmatic solution to construction documentation. The University believes that its file management system will meet the basic requirements, but will continue to consider other programmatic solutions.
6. Construction Contract Language

Observation

The contract for construction projects used between the University and its general contractors does not include clauses that provide for the right-to-audit and business ethics expectations. Management was not aware of the need to include such contract clauses. Absence of these direct provisions could result in the University being held liable for intentional or unintentional unethical behaviors including billing errors, fraudulent activities, and noncompliance with State of Texas laws, A&M System policies and regulations, and contract provisions. Inclusion of right-to-audit and business ethics expectations clauses is considered standard business practice in construction contract provisions.

Recommendation

To reduce risks associated with construction projects, consult with the System Office of General Counsel regarding the incorporation of the right-to-audit and business ethics expectation clauses within construction contracts or other contract documents, such as the System Uniform General and Supplementary Conditions.

Management’s Response

The University has submitted one contract for review and has received approval by the System Office of General Counsel (OGC) which did not include the referenced clauses. Management will resubmit the latest approved template for consideration of additional clauses. There are several other contract templates that need to be revised; especially when considering some recent legislative changes. The University will work with OGC to implement clauses that will protect the University and the A&M System. The University will recommend that clauses concerning audit and ethics be included in contracts greater than $100,000.

The review and approval of contract templates should be completed by September 1, 2012.
BASIS OF REVIEW

Objective

The objective of the audit was to review and assess the University’s financial and management controls over University Facilities’ operations to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; Texas Administrative Code; Texas A&M University – Kingsville’s Rules and procedures; the Texas A&M University System’s “Uniform General and Supplementary Conditions” for construction projects; the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control – Integrated Framework (COSO); the National Association of College and University Business Officers practices; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

University Facilities is comprised of approximately 100 full-time positions that report to the Executive Director of Support Services who in turn reports to the Vice President of Finance and Administration. The mission of University Facilities is to assess, plan, and improve the appearance, safety, security, and operational condition of all University facilities enhancing the environment for quality living and academic programs. To achieve this mission, University Facilities has two primary functional divisions which provide most of the facilities’ operations for the University. The two divisions are Engineering and Planning and Physical Plant. The
Physical Plant is further divided into eleven shops including Electrical; Plumbing; Heating, Ventilation, and Air Conditioning; General Repair; Painting; Carpentry; Locksmith; Auto Tech; Service Work; Grounds; and Custodial. Fiscal year 2010 operation and maintenance of plant expenses totaled approximately $9.4 million according to the annual financial report.
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