

The University of Texas at Tyler

**The Physical Plant Department
Change in Management Audit**



August 2017

THE UNIVERSITY OF TEXAS AT TYLER
OFFICE OF AUDIT AND CONSULTING SERVICES
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TYLER, TEXAS 75799

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Fiscal Year 2017

BACKGROUND

An audit of the Physical Plant Department was conducted as a result of the change in management. The former Associate Vice President (AVP) of Facilities Management retired in June 2016 and was replaced by the AVP for Facilities Management and Capital Planning in September 2016. During the interim period, the Physical Plant department reported to the AVP of Business Affairs. The vacant position of Construction Manager was restructured to Director of Facilities Management and filled in September 2016 as well. The University of Texas at Tyler's (UT Tyler) Institutional Audit Committee (IAC) requests a change in management audit for executive level positions; therefore this audit was included in the FY 2017 Annual Audit Plan.

AUDIT OBJECTIVE

The objectives of the audit were to conduct a review of the Physical Plant's departmental operations, including financial transactions and other high risk items, for compliance with the State of Texas, University of Texas System (UT System), and UT Tyler rules and regulations.

STANDARDS

The audit was conducted in accordance with guidelines set forth in *The Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing*.

SCOPE AND METHODOLOGY

The scope of the audit was Fiscal Year 2016. UT Tyler departments, including Budget and Financial Reporting, Financial Services, Human Resources, and Information Security, have institution-wide oversight responsibilities; therefore, areas reviewed by these oversight departments were excluded from the scope of this audit. The Compliance Office completed a Quality Assurance Review (QAR) in March 2016, which included reviewing departmental transactions for segregation of duties, salaries, wages, receipts, expenditures, and account reconciliations. Only minor weaknesses were noted in these areas; therefore, detailed testing of transactions in this audit was limited to transactions not included in the QAR, such as construction and renovation transactions. To accomplish the objectives noted above, the following procedures were conducted:

- Reviewed policies and procedures for the State of Texas, UT System, and UT Tyler;
- Reviewed departmental policies and procedures;
- Interviewed department employees to understand their responsibilities;
- Selected a judgmental sample of forty transactions totaling over \$2,460,000 to test for compliance with UT Tyler purchasing guidelines including proper procurement, preparation of purchase orders, documentation of receipt of goods or services, accuracy of transaction in the PeopleSoft Financial Management System (UT Tyler's accounting software); and
- Reviewed judgmental sample of 21 entries in "SchoolDude", the department's software used to track maintenance inspections and work orders for completeness.

The University of Texas at Tyler
The Physical Plant Department Change in Management Audit
Fiscal Year 2017

AUDIT RESULTS

According to The UT System Audit Office, “A *Priority Finding* is defined as an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole. *Non-Priority Findings* are ranked as High, Medium, or Low, with the level of significance based on an assessment of applicable Qualitative, Operational Control, and Quantitative risk factors and probability of a negative outcome occurring if the risk is not adequately mitigated. In total, this audit resulted in two High-level findings and three Medium-level findings.

Finding Level Legend	
Priority	<i>A finding is defined as an issue that if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of UT Tyler.</i>
High	<i>A finding that is considered to have a <u>medium to high probability</u> of adverse effects to UT Tyler as a whole or to a significant college or department.</i>
Medium	<i>A finding that is considered to have a <u>low to medium probability</u> of adverse effects to UT Tyler as a whole or to a college or department.</i>
Low	<i>A finding that is considered to have a <u>minimal probability</u> of adverse effects to UT Tyler as a whole or to a college or department.</i>

Audit Findings		
	Level	Description of Finding
1	High	<i>Inadequate policies and procedures for construction change orders.</i>
2	High	<i>Inadequate policies and procedures for campus renovations.</i>
3	Medium	<i>Contract proposals did not include required information.</i>
4	Medium	<i>Purchase orders were not created in accordance with policies.</i>
5	Medium	<i>Incorrect account codes were used to process transactions.</i>

We also made additional recommendations to departmental management for other noted issues to provide additional opportunities to strengthen controls.

The University of Texas at Tyler
The Physical Plant Department Change in Management Audit
Fiscal Year 2017

#1. Policies and Procedures for Construction Change Orders (High)

The UT Tyler Management Responsibilities Handbook states: "*Each department and budget unit is expected to have a departmental policies and procedures manual. A department policies and procedures manual should address policies and procedures that are unique to the department and procedures to implement institutional policies and procedures.*" The Physical Plant Department has a Manual of Business Procedures. The department oversees construction projects on campus that are not managed by The UT System Office of Facilities Planning and Construction (OFPC). Currently, there are no policies and procedures for the budget oversight and approval of construction change orders for internally managed projects. Without policies and procedures, change orders could be executed without adequate consideration or approval. This could result in the project needing additional changes and incurring unexpected expenses.

Recommendation: The Department's Manual of Business Procedures should be updated and should specifically include policies and procedures related to the oversight and approval of construction change orders.

Management Response: Change order policies are already in place for OFPC managed projects, but we acknowledge the lack of internal project policies in regards to change orders. We will update our departmental procedures to include such a policy.

Implementation Date: October 31, 2017

#2. Policies and Procedures for Campus Renovations (High)

Various state and federal codes, including fire codes, exist to protect property. All renovations made to UT Tyler buildings should follow all the applicable codes and be supervised by the Physical Plant Department with oversight provided by the Environmental, Health and Safety (EH&S) Department. Currently, there is no policy requiring departments to obtain approval for renovations made to campus property. In the past, several departments made changes to campus buildings and property using departmental employees or hiring outside vendors. These changes were completed without consulting with the Physical Plant Department or EH&S. Inadequate oversight could result in violation of property codes, changes that are not in the best interest of the institution, and /or damage to campus property.

Recommendation: A policy should be developed and communicated that UT Tyler departments obtain approval from the Physical Plant Department prior to making any property renovations. This policy should be communicated to all institutional employees and included in the Handbook of Operating Procedures and the Management Responsibilities Handbook.

Management Response: We agree that a policy needs to be created and we are currently working with other business affairs departments on how we can become alerted if a person/department would try to bypass this policy. We will create a policy and submit it for inclusion in the Handbook of Operating Procedures and the Management Responsibilities Handbook.

Implementation Date: Policies will be submitted by October 31, 2017.

The University of Texas at Tyler
The Physical Plant Department Change in Management Audit
Fiscal Year 2017

#3. Inadequate details in Contract Agreements (Medium)

UT Tyler entered into "Indefinite Delivery, Indefinite Quantity" (IDIQ) contracts for two separate professional services. The IDIQ contracts specify certain items that must be included in individual project proposals. The proposals for two transactions tested did not include the required items. Without the specific information as required for individual projects, UT Tyler is not able to determine if the project proposal is in compliance with the Master Agreement and is a good value for The University.

Recommendation: Required details should be obtained on all IDIQ projects for consideration by management.

Management Response: We will ensure all future projects contain the required information.

Implementation Date: Immediately

#4. Purchase Orders not in Compliance with Policies (Medium)

The UT Tyler Purchasing Policies and Procedures states, "a Purchase Order is to be obtained before a purchase is made." This enables the University to formalize the agreed upon price and delivery. For contracts, a contract approval form should be obtained prior to the purchase order being approved. We noted two of the forty transactions did not follow the proper approval procedures. The details of these transactions have been provided to the Physical Plant management. The effect of not obtaining the Purchase Order timely could result in discrepancies in goods or services obtained and the related cost.

Recommendation: The department should obtain approved agreements prior to preparing purchase orders, and purchase orders should be prepared prior to the commencement of the work.

Management Response: This will be followed in all possible instances. Emergency work may follow out of line with this if campus approval systems do not keep pace with the emergency response required.

Implementation Date: Immediately

#5. Incorrect Account Codes on Purchasing Transactions (Medium)

UT Tyler uses the PeopleSoft Financial Management System to record transactions and develop financial reports for management's consideration. Purchasing transactions are recorded using an "Account Code" based on the description of the item purchased; for example, Buildings, Equipment, Office Supplies, Travel, etc. Of the forty transactions tested, we noted eight totaling \$136,658 processed with incorrect account codes. The details of these transactions have been provided to the Physical Plant management. Processing transactions with incorrect account codes could result in inaccurate financial reports, including capital assets and depreciation recorded at incorrect amounts.

The University of Texas at Tyler
The Physical Plant Department Change in Management Audit
Fiscal Year 2017

Recommendation: The department should contact the Budget and Financial Reporting Office with the details of the eight transactions that were recorded incorrectly. Transactions should be processed with the correct account code in the future.

Management Response: We will contact the budget office and get this rectified. Moving forward we will work closely with the budget office to ensure we are using the current account coding process.

Implementation Date: August 31, 2017

CONCLUSION:

The Physical Plant Department is generally in compliance with the rules and regulations related to the areas reviewed. New policies and procedures will further strengthen the controls in the department and help reduce related risks.

We commend the departmental personnel on maintaining required documentation and following the many guidelines related to departmental transactions.