



DATE: May 22, 2008

TO: KEN NERLAND, Director
DOUG DOW, Facilities Manager
General Services Department

THROUGH: RENENA SMITH, Budget Manager
Budget and Management Studies Division

FROM: BOB KOURY, Principal Internal Auditor
BILL RICHARDS, Internal Auditor
Budget and Management Studies Division - Internal Audit

SUBJECT: FOLLOW-UP AUDIT - FACILITIES MANAGEMENT DIVISION

Attached is the Final Follow-up Audit Report with the current implementation status of the four recommendations made in the Facilities Management Divisions Audit Report issued August 27, 2007. Internal Audit wishes to thank you and your staff for their cooperation and assistance in performing this follow-up audit, which was performed in accordance with AO 1-12 and Government Auditing Standards.

Although the four recommendations are still in progress, you and your staff should be commended for your efforts towards full implementation of these audit recommendations.

If you have any questions regarding this matter, please contact Bob Koury, Principal Internal Auditor, at 621-7072.

Attachment

cc: Alan Autry, Mayor
Council Members
Andrew T. Souza, City Manager
Bruce Rudd, Assistant City Manager
Karen Bradley, Interim Finance Director/City Controller
Pedro Rivera, Senior Budget Analyst



INTERNAL AUDIT

Follow-Up Audit Report

**Facilities Management Division
General Services Department**

Audit #08-0021

**Performed by: Bill Richards, Internal Auditor
Budget and Management Studies Division –Internal Audit**

Issued on May 22, 2008

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AUDIT FINDINGS AND RECOMMENDATIONS

Finding 1 – Lack of a Policies and Procedures Manual

Per our discussions with management and staff, we noted the Division lacks a formal (written) Policies and Procedures Manual. Failure to provide employees with policies and procedures/guidelines leaves much too individual interpretation, and can adversely affect job performance including reducing efficiency on the job.

An essential element of internal control is a formal system of authorization and documentation, which can be achieved through the establishment and implementation of a formal Policies and Procedures Manual. Formal policies and procedures communicate management's intentions and expectations, and provide employees with written procedures to carry out activities in an effective and efficient manner.

Recommendation 1

Facilities Management should develop, implement, and enforce a comprehensive formalized (written) Policies and Procedures Manual for the accounting, monitoring, and general oversight of all the functions in the Division. The manual should clearly outline the specific duties, authority, and responsibility for all employees, thus providing the essential foundation needed for establishing employee accountability and management oversight. Once developed and approved by General Services Administration and Facilities Management, the Policies and Procedures Manual should be distributed and clearly communicated to all Division employees.

Original Management Response to Recommendation 1

Facilities Management immediately addressed the Audit Findings by holding weekly meetings, attended by Management and Lead Workers, where data has been compiled, reviewed and formal processes are being developed. Once these processes are completed they will be submitted for consideration and approval to GSD Administration. Estimated implementation of the Policies and Procedures manual will begin October 1st, 2007.

Additions and revisions will be addressed as new items or changes are necessitated.

Current Status of Recommendation 1 – In Progress

A Policies and Procedures Manual has been developed to immediately address the Audit Findings. Supervisors have been provided with the P&P and as issues occur, additions and revisions will be made as needed.

Internal Audit Comment

We commend Facilities Management for the development of a Policies and Procedures Manual; however, written approval of this Manual by both the Facilities Manager and Department Director is still recommended for full implementation of the recommendation.

Finding 2 – Inadequate Security/Access Controls to Assets and Lack of Complete Accountability & Documentation of Facilities Office Doors, Yard Gates, Keys/Access Codes

During our tour of the facilities, discussions with management and staff, and review of documents, we noted the lack of a key accountability/authorization log and an out of date electronic access code list. The electronic access code list contains the names of personnel who are no longer employees of the Division/City. Inadequate security controls increase the opportunity and potential for theft, loss, and/or damage of City assets.

Recommendation 2

All keys and electronic access codes to Facilities Management Offices, external doors, gates, storerooms for inventory & equipment, etc. should be changed immediately. The Facilities Manager should then develop and implement a “Request Form” for the issuance of keys and access codes that is signed by the requesting employees and approved by the Facilities Manager. This process should be formalized in the Divisional Policy and Procedure Manual, which would be maintained and monitored by the Facilities Manager and his Section Supervisors for compliance and internal control purposes.

Original Management Response to Recommendation 2

Facilities Management has developed a “Key Request Form” and will be working with the different division throughout the City to create a list of Authorized Personnel from the different divisions that may approve key requests. Along with this, Facilities is upgrading the current Key Management Software, Keystone, to the current version and is auditing, reviewing and merging duplicate records. Access codes for security have been changed for different Facilities and the Access Code list is being updated. Facilities immediately addressed the access to the sites listed by limiting the employees with authority to enter certain premises. Access to Gates is in the process of being changed and will be managed by the Administrative section. Estimated completion is December 2007.

Current Status of Recommendation 2 – In Progress

A List of Authorized Personnel from the different divisions has not been completed, however, when key request are requested, Administration e-mails the Division Managers or Designee’s to

authorize prior to issuing the work orders thru the FacilitiesMgmt e-mail site. Changes to the Locksmith job specifications have been submitted to Personnel to ensure that the permanent Locksmith will handle all of the Audit Findings. Once a permanent Locksmith is hired, that person will report to the Division manager ensuring that all items addressed in the Audit Findings remain in compliance.

Finding 3 – Lack of an Adequate Inventory System and Complete Listing for All Assets Below the City’s Fixed Asset Threshold

Based on our discussions with management and staff, we noted the lack of an inventory system and a complete inventory listing of all assets (tools and equipment) below the City’s fixed asset threshold of \$2,000. In addition, the Facilities Management supply warehouse does not have a perpetual inventory system and a complete inventory listing of all the parts and materials in the warehouse. The lack of inventory controls increases the opportunities and potential for theft, loss, and/or damage to these City assets.

In addition, the roles and responsibilities of the employees involved with inventory control have not been formally defined resulting in the possibility of leaving many issues relating to day-to-day operations up to employee discretion that could result in inconsistent practices and reduced assurance that assets are properly maintained, secured and accounted for.

Recommendation 3

Facilities Management should immediately perform a complete independent physical inventory of their voluminous number of parts, tools, and equipment, including items that are below the City’s capital asset tracking threshold (less than \$2,000) to ensure the security and accountability of all City assets. In addition, Facilities Management should establish written inventory policies and procedures for inventory control that identifies the processes and responsibilities of the different inventory functions/areas. Note: It was verified that the Finance Department is currently in the process of conducting fixed asset inventories of all City Departments, including Facilities Management, in accordance with AO 1-3, i.e. assets of \$2,000 or more.

Original Management Response to Recommendation 3

Facilities Management is working with a Software Consultant to implement a Physical Inventory system and with an independent third party to do an all inclusive Physical count of assets/inventory.

Issues being addressed by Management include the purchases made by Facilities employees and identifying personnel authorized to approve purchases. The warehouse will be reconfigured to limit access to Parts and tools with employees signing these items out. Open purchase orders will be kept to a minimum and persons authorized for purchases will only be approved by Management and/or the Warehouse Storeskeeper.

All purchases will also be audited on a monthly basis by the Administration section to ensure that all items purchased that fall under the Administrative Order 1-3 are identified as belonging to the proper department/division. Facilities will also be providing Finance with the status of the Special Projects to facilitate tracking of Capital Projects and the assets associated with them to other divisions. Estimated completion is December 2007.

Current Status of Recommendation 3 – In Progress

The division upgraded the current inventory management system, however in order for full implementation it will be necessary to contract an outside firm to do physical inventory, a cost that the division can not absorb currently. Management has opted to deplete current inventory and cease all new inventory purchases. The division will be implementing just in time inventory. Management has also assigned Accounting personnel to oversee the functions of the Warehouse and identify specific areas of concern. Although revisions are still in process, Management feels confident that with Accounting Personnel overseeing the functions of the warehouse, we will be able to develop formal roles and responsibilities for the stores keeper. The issues addressed by the Audit Findings are continuously revisited by management.

Finding 4 – Inadequate Project Management of Facilities Management Requested Projects and Lack of Formalized Policies and Procedures

During discussions with management and staff, we noted inadequate project management due to a lack of formalized Policies and Procedures. This includes from the initiation and receipt of Work Orders/Projects by Facilities Management from any City Department throughout the entire process, i.e. project costing, budgeting, planning and scheduling of projects, staffing of projects, prioritization of projects, written approvals of all projects by Facilities Manager and/or his designees (Facilities Maintenance Supervisor, Chief Facilities Manager – Electrical, Project Manager), billings/pre-billings of projects completed by Facilities Management, etc. Note: The Department’s Budget Analyst, Pedro Rivera, will be working closely with the Facilities Manager and his Management Analyst to improve oversight of their Budget with respect to “unplanned-unscheduled” projects affecting their Budget and “cash flow”.

Recommendation 4

Facilities Management should develop, implement, and enforce formalized (written) policies and procedures for the accounting, monitoring, and general oversight of projects requested of, and completed by, Facilities Management. The policies and procedures should clearly outline the specific duties, authority, and responsibility for all employees, thus providing the essential foundation needed for establishing employee accountability and management oversight and monitoring. Once developed and approved by General Services Administration and Facilities Management, the policies and procedures should be distributed and communicated to all Division employees.

Original Management Response to Recommendation 4

Management and Staff have developed and implemented a set of Standard Policies. Duties and responsibilities as it relates to the Special Projects have been assigned to designated employees and will be continuously monitored. To ensure that projects costs and tracking are in compliance with standard practices, monthly reconciliation and cost reports will be provided to the Project Manager(s). Facilities Personnel have attended software training classes that will allow for better management of the projects and ensure cost effective timely completion. Facilities will communicate with the customers notifying them of changes that will affect the project timeline and/or budget which will in turn improve cost recovery. Facilities will continue to work closely with Budget Analysts to ensure appropriations are granted to Facilities for the completion of projects and the solvency of the Special Projects division. Estimated Completion is October, 2007.

Current Status of Recommendation 4 – In Progress

Policies and Procedures associated with Special Project Management - have been developed and implemented. Monthly reconciliations of projects are prepared and submitted to the Project Manager for review; this in turn ensures that division accounts for all of the expenses associated with these projects and allows for better Accounts Receivable Management.

Facilities has been communicating with the customer as to changes in the scope of work and Management feels confident that it can and has provided proper cost tracking for all special projects related work.

Internal Audit Comment

We commend Facilities Management for the development of a Policies and Procedures Manual; however, written approval of this Manual by both the Facilities Manager and Department Director is still recommended for full implementation of the recommendation.