



PROJECT SUMMARY

Overview

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Significant weaknesses exist in the internal control systems within the Physical Plant at Prairie View A&M University. Controls are ineffective in providing assurance that resources are used effectively and efficiently, that financial and operational data is presented accurately, and that operations are conducted in compliance with applicable laws, policies, regulations, and rules. The processes used to monitor the operations of the Physical Plant are weak resulting in a general lack of accountability throughout the Physical Plant. As a result of these conditions, the University has a high level of risk that resources may not be used appropriately and that goals and objectives may not be achieved in an efficient and effective manner.

The Physical Plant is composed of eight divisions including the Business Office, Special Projects, Landscape Maintenance, Building Maintenance, Space Management, Utilities, Custodial Services, and Water/Wastewater/Transportation. The Physical Plant had expenditures of \$8.9 million in fiscal year 2003.

Summary of Significant Results

Control Environment

Physical Plant's overall control environment is weak. There is a lack of coordinated or integrated planning within the Physical Plant. Operational goals and objectives have not been established for all of the Physical Plant divisions. No formal performance measures have been developed to determine achievement of goals and objectives. No level of management routinely requires or provides any operational type reports to be used for monitoring Physical Plant operations and management decision-making. These conditions increase the University's risk for inefficient and ineffective operations within the Physical Plant and an overall lack of accountability.

Contract Management

The Physical Plant often failed to comply with procedures for managing contracts and did not routinely coordinate with the University's Purchasing Office or its Contract Administration Office to assist with processing and monitoring of contracts. The Physical Plant does not maintain a list of internally managed construction contracts and could not provide a dollar value of the projects for fiscal year 2003. The lack of compliance with contract administration procedures increases the risk of inefficient and inappropriate use of resources.

Purchasing

The Physical Plant does not consistently follow purchasing rules and procedures. Testing indicated instances of purchases to vendors which were not competitively bid as required. Other purchases lacked the required management review and approval, and appropriate date/time documentation for sealed bids. Emergency purchases did not follow the required procedures. The lack of compliance with purchasing rules and procedures increases the risk of preferential treatment towards certain vendors and paying more for goods and services than necessary.

Human Resources Management

The processes used in the Physical Plant to monitor the activities within the human resources function are not adequate to ensure that A&M System regulations and University rules are adhered to. Testing identified instances of non-compliance in the areas of performance evaluations, position descriptions, employee training, and hiring practices. These conditions increase the risk that employees may not be aware of management's performance expectations, employees may not be held accountable for their work, and/or employees may not be adequately trained for their jobs.

Information Technology

Information technology use within the Physical Plant is not coordinated among the Physical Plant divisions. Three different work order systems are being used, each requiring specific user and vendor support. While these systems all contain mission sensitive and critical data pertinent to the individual divisions using them, there are no formal back up and recovery plans in place. These conditions increase the risk that resources are used ineffectively and inefficiently, that increased costs are incurred, and that critical data could be lost or disrupted without the possibility of recovery.

Summary of Management's Response

Management appreciates the System Internal Audit Department's efforts to identify areas needing improvement and steps necessary to ensure that improvement is achieved. We are committed to satisfactorily addressing remaining issues and are developing or enhancing procedures to address these issues.

Scope

The review of financial and management controls within the University's Physical Plant focused on the areas of department operations, planning and budgeting, contracts, purchasing, human resources and payroll, and information technology. Transactions and information related to these areas were reviewed for the period September 1, 2002, to August 31, 2003.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Control Environment

Observation

The Physical Plant lacks coordinated planning, performance measures, and accountability.

There is a lack of coordinated or integrated planning within the Physical Plant. Management of the various operations of the Physical Plant is decentralized, but major decision-making is centralized within the Director's Office. The Director establishes the planning and budgeting for the divisions within the Physical Plant with little input from the division managers.

Annual goals and objectives are not routinely or consistently established for the eight divisions. The Vice President for University Operations provided the Physical Plant Director with some broad, overarching goals, as well as some specific tasks to be accomplished during fiscal year 2003. It could not be determined whether these were discussed with, or further distributed to, the various division managers. Some division managers could not provide goals and objectives for the year other than what was listed in the Physical Plant's Standard Operating Procedures (SOPs). However, SOPs are routine tasks to be accomplished rather than goals and objectives, and have not been substantively updated in a number of years. A lack of planning, which includes the establishment of both personal and operational goals and objectives, as well as a defined method to measure accomplishment of those goals and objectives, negatively impacts the ability of the Physical Plant to achieve expected outcomes and results and to hold employees accountable for their work.

No formal performance measures or other measurement tools have been put in place to measure the achievement of any goals or objectives that have been established. No level of management consistently or routinely requires or provides any operational type reports to the next higher level of management. Managers who did establish goals were not required to demonstrate how, or if, they had achieved those goals. Management relies on both formal and informal meetings to discuss accomplishments and work to be done. Additionally, management relies on visual inspections of work areas and informal feedback from customers to assess accomplishments. However, most of the divisions, as well as the Physical Plant as a

1. Control Environment
(cont.)

whole, do not have a formal mechanism for obtaining customer feedback.

A customer satisfaction survey developed by the auditors and distributed to all University Department directors and managers through the Office of Finance and Administration indicated that 53% of respondents had never been contacted by the Physical Plant to solicit their feedback. A substantial number of respondents, who stated that they had provided feedback to the Physical Plant for work performed, further stated that even though their feedback was negative, they were not contacted further for an explanation of their dissatisfaction.

Without an established process for measuring accomplishments, management may not be aware that operational goals and objectives are not being met. The Guide to Performance Measure Management prepared by the State of Texas states that, "Performance measures are developed as part of the strategic planning process and should flow from the mission, goals, objectives, and strategies with an emphasis on serving the agency's customers." It goes on to state "A good performance measurement system should provide information that is meaningful and useful to decision-makers. A good system plays an integral part of an agency's daily operation and is well supported by executive management."

Recommendation

Establish a strong and effective control environment within the Physical Plant. This should include:

- Developing formal goals and objectives for the Physical Plant.
- Developing formal goals and objectives at the individual Physical Plant division level.
- Establishing formal performance measurement methods for determining achievement of goals and objectives.
- Communicating the goals and objectives to the staff so that they understand the requirements and expectations of management.
- Establishing processes for collecting performance information and communicating the information to management.
- Monitoring the operations of the Physical Plant and analyzing critical success factors, including customer service, and making any necessary changes.

Management's Response

1. Control Environment (cont.)

The University has developed a Quality Enhancement Plan (QEP). Management will update the QEP for Physical Plant. This update should be complete by September 30, 2004. Progress will be discussed at quarterly meetings and a written annual progress report will be prepared. A Physical Plant Director and Physical Plant Business Manager will be hired and in place to measure progress by September 30, 2004.

Performance measures will be established in the QEP utilizing the strategic operating plan for managers and the job Position Description Questionnaires (PDQ's) for other employees.

The Custodial and Maintenance Departments have implemented campus surveys for feedback from departments. The remaining Physical Plant departments will have completed surveys by September 30, 2004. In addition, Physical Plant is developing a Web page to share information and invite feedback from other departments which are served by Physical Plant.

2. Contract Management

Observation

The Physical Plant is in non-compliance with contracting policies, regulations, rules, and procedures.

The Physical Plant has comprehensive procedures for performing contract administration, but often failed to comply with these procedures. Additionally, the contracting process did not comply with laws, policies, and regulations. Instances of non-compliance included:

- Contract bids scheduled for opening less than four weeks after final publication date.
- Bid opening dates rescheduled without clear and substantial reasons.
- Contractors failed to provide adequate proof of insurance.
- Change orders lacked sufficient descriptions to justify changes.
- Contractor failed to start work within ten days.
- Contractors did not provide proof of licensing of skilled trades.
- Minor construction contracts were not reviewed by the A&M System Office of General Counsel.
- Minor construction contracts were not closed out in a timely manner.

Additionally, there is a lack of communication and coordination between the Physical Plant and the University's Contract

2. Contract Management
(cont.)

Administration Office which increases the risk that Physical Plant contracts will not be handled in accordance with established procedures.

Neither the Physical Plant Business Manager nor the Physical Plant Planning and Construction Division, which is responsible for monitoring construction contracts, could provide a reliable list of active minor construction or service/maintenance contracts for fiscal year 2003. Files for contracts that were reviewed were disorganized, incomplete, and often contained items that were misfiled. Without a list of current contracts readily available, management cannot accurately tell how many contracts are active or the dollar values involved. Combined with poor file management, administration cannot effectively supervise or monitor the contracts.

The Planning and Construction Division has experienced considerable turnover and turmoil within the past year. The Manager was reassigned in March 2003. Two other employees have been recently hired, but they are primarily concerned with monitoring daily operations rather than contract administration. The Physical Plant Director assumed the duties of determining the necessary work, awarding the contracts, and authorizing payments to the contractors. This creates a lack of segregation of duties and increases the risk that resources will be used inappropriately.

Recommendation

The University should obtain the necessary knowledge and skills to develop, implement, and sustain the controls and processes to effectively manage contract administration within the Physical Plant and to ensure compliance with laws, policies, regulations, and rules. The system of controls and processes should be capable of handling departmental and University infrastructure growth. In addition, management should develop a system to monitor current contract activity that includes the appropriate segregation of duties and coordination with the University's Contract Administration Office. File organization and maintenance should be improved and personnel responsible should have a clear understanding of requirements.

Management's Response

The bidding and awarding process has now been assigned to the Procurement Department which is aware of compliance issues and will ensure full compliance with applicable laws, policies, and procedures.

2. Contract Management
(cont.)

A routing and filing system is currently being developed in Physical Plant which will ensure coordination with the Contracts Office and the Purchasing Department. We anticipate the system will be developed and implemented by September 1, 2004.

Utilizing Purchasing to bid and award and the Contracts Office to ensure proper level of review for all agreements establishes a properly segregated review/approval process.

3. Purchasing

Observation

The Physical Plant is in non-compliance with purchasing rules, regulations, and procedures.

The University's, as well as the Physical Plant's, purchasing procedures are not routinely followed. These procedures are available, both online and manually, to provide guidance for the purchasing process.

Physical Plant purchases did not adhere to, or comply with, the required procedures as noted below:

- Purchases from five different vendors, in which the cumulative amount purchased from each vendor was greater than \$2000 within a 30-day period, were not competitively bid.
- Purchases were made without the appropriate level of management review or approval.
- Purchases were made by competitive sealed bid in which the sealed bids were not date- and time-stamped to indicate that they were appropriately received at the time of the bid opening. (The University does not require that sealed bids be date- and time-stamped, but this is a requirement of the A&M System Construction Procedures Manual.)
- Purchases, which were classified as emergencies, did not comply with the requirements of emergency purchases as outlined by the Texas Building and Procurement Commission Procurement Manual.

Errors such as these can give the appearance of preferential treatment for some vendors and could cause the University to pay more for goods and services than necessary.

Personnel responsible for processing the purchases may not have been familiar with all of the purchasing requirements or did not review the orders thoroughly enough to catch the errors. Additionally, Physical Plant personnel did not routinely coordinate with the University's Purchasing Office for assistance in monitoring purchases for compliance with University procedures,

3. Purchasing (cont.)

A&M System policies and regulations, or state laws and requirements.

Recommendation

The University should ensure that all purchases are handled in compliance with laws, policies, regulations, and rules. Personnel, including reviewing supervisors, involved in the purchasing process should be adequately trained on purchasing procedures and requirements. All purchases not in compliance with required procedures should be returned to the originators and not processed until corrected.

Management's Response

The Purchasing Department is currently implementing an online computer module and providing training to departments. The system will provide for two reviews within the department and an additional review in Purchasing before a purchase order is generated. Several of the departments within Physical Plant are now trained and currently using the new system. In addition, the Interim Director will ensure that Managers of all Physical Plant divisions attend the Purchasing compliance training offered by the Fiscal Office. We expect all departments in Physical Plant to complete training and begin utilizing the new system by September 30, 2004. Purchasing now handles the bid process and all documents are date- and time-stamped.

4. Human Resources Management

Observation

Human resources activities are not adequately monitored.

Within the Physical Plant, human resources weaknesses were noted in the areas of performance evaluations, position descriptions, employee training, and employee hiring practices. These weaknesses increase the risk that the Physical Plant's human resources might not be managed efficiently and effectively and in compliance with applicable laws, policies, regulations, and rules. The University's central Human Resources Office has delegated to the Physical Plant many of the responsibilities for human resources activities. However, the system that is used to monitor these activities is not adequate to ensure that the Physical Plant is doing an effective job.

The following issues were identified:

4. Human Resources
Management (cont.)

Performance Evaluations and Position Descriptions

Five of the six (83.3%) probationary evaluations reviewed were performed after the fourth month of employment. The Physical Plant personnel responsible stated that they were unaware of the A&M System requirement to perform these evaluations before the end of the fourth month.

The employee performance evaluation form used by the University has an evaluation criterion for "Performance Plan". However, employee performance plans were not available and managers stated that separate performance plans are not developed. Directions for the performance evaluation state that the performance plan for the employee may be an updated Position Description outlining the performance goals to be obtained during the coming year. However, the position descriptions do not include goals for performance evaluation but rather a listing of duties to be performed. Additionally, the position descriptions were not attached to the completed evaluations and there was no indication that they were discussed with employees during the evaluation process.

Evaluations did not contain specific performance feedback to the employees. Justifications for high or low marks were not provided. By not providing comments on the evaluations, employees may not understand why they received certain marks. Instructions to the Employee Performance Evaluation form state "The supervisor is encouraged to provide detailed comments to support the ratings and to emphasize the areas where the employee is doing well or needing improvement". This issue is especially important in the award of merit increases. University Rule 31.01.08.P1 states that a current performance evaluation must accompany a merit increase as justification for the increase. In 50% of the merit increases we reviewed, while the performance evaluation with high ratings was included, it did not contain any comments explaining the ratings which could then be used to justify the increase.

We were unable to locate position descriptions for seven out of 59 employees tested. Additionally, one employee out of 52 did not sign his position description.

Employee Training

Employee training was not accurately or appropriately documented within the employee's personnel file. Generally, the only training documentation available was for the required human resources courses. Thirty-two of the 60 (53%) employees whose files were reviewed received additional training which was not

4. Human Resources
Management (cont.)

documented in the personnel files even though documentation, in the form of sign-in lists, payment information, or certificates of completion, was available within the respective divisions.

System Policy 33.05, "Employee Training", paragraph 1.1, states "Training shall include the duties and responsibilities of their positions and the various policies, rules, regulations, and procedures related to their employment . . ." Paragraph 1.4 states "All training required by this policy shall be documented in the employee's permanent personnel file or stored electronically." Training is the responsibility of the individual managers and they were not aware that training documentation should be maintained in the employee personnel files.

Employee Hiring

Three persons were hired within the Physical Plant during fiscal year 2003 into positions that created a violation of the A&M System Nepotism policy. All three employees were related to the Physical Plant Director and two of the new hires' applications appropriately disclosed the relationship. The Director of the Physical Plant was in a position to exercise indirect, if not direct, authority over the condition of employment of his relatives. The employments were not authorized by the President of the University as required. All three individuals were later terminated.

Recommendation

The University should ensure that control systems over human resources activities are effectively operating within the Physical Plant. Personnel, including supervisors, responsible for evaluations, position descriptions, training, and hiring should be trained on the laws, policies, regulations, and rules pertinent to those activities as well as their individual roles and functions. A monitoring system should be established to ensure that all functions are carried out in a timely manner and that all activities comply with applicable laws, policies, and regulations.

Management's Response

We agree that better controls should be implemented to monitor Human Resources issues. A checklist is being developed to ensure that each Physical Plant employee has all required documentation on file with Human Resources including documentation of all training. The checklist will be monitored quarterly by the Physical Plant Director. The Director will ensure that all Physical Plant Division Managers attend the Human Resources training for

4. Human Resources
Management (cont.)

personnel management and evaluations. The checklist will be developed and training will be completed by July 31, 2004.

5. Information Technology

Observation

Planning for, and use of, information technology is not integrated or coordinated.

The Physical Plant does not integrate or coordinate information technology purchasing or use within Physical Plant divisions or with the University's Information Technology (IT) Department. Each Physical Plant division handles its own automation needs and requirements. As a result, three separate work order/work management systems are being used within the Physical Plant. While each system is specialized to the needs of the individual division which purchased it, it is possible that each of the systems could also accommodate the needs of the other divisions.

By not coordinating information technology throughout Physical Plant, resources may not be used efficiently and effectively. There may be additional costs for support and equipment for these individual systems.

The Physical Plant has no formal information technology support and no formal back up and recovery procedures for the systems in use. One manager backs his system data up on a ZIP drive (an external high capacity storage device) which he keeps in a desk drawer in the office. These systems all contain mission critical data which could be lost or seriously disrupted in the event of a catastrophe or other serious loss of power.

The Texas Administrative Code 202, Information Security Standards, section 202.6, Business Continuity Planning, states "Mission critical data shall be backed up on a scheduled basis and stored off site in a secure, environmentally safe, locked facility accessible only to authorized agency representatives." The Committee of Sponsoring Organizations *Internal Control – Integrated Framework*, Chapter 5, Information and Communication, states "Information systems often are an integral part of operational activities. A recently issued study indicates that the most important management challenge . . . is to integrate the planning, design and implementation of systems with the organization's overall strategy."

Recommendation

The University should perform an analysis of the automation needs and requirements of each of the divisions within the Physical Plant and develop an integrated plan for meeting those

5. Information Technology
(cont.)

needs. The Physical Plant should solicit the assistance of the University's central IT Department to determine the support needed to ensure continuous operations, which include formal back up and recovery plans.

Management's Response

Based on an internal review, Physical Plant believes that the three software products used by Maintenance, Grounds, and Utilities are specialized and job specific to the respective departments. The University's Information Technology Department will complete a study to see if efficiencies can be achieved by using one of the softwares for all departments. This study will be complete by June 30, 2004. All backup programs will be stored by the University's Information Technology Department in a separate building by June 30, 2004. To ensure a direct line of communication with the University's Information Technology Department, one member of the Physical Plant Management team participates in the University's Information Technology Users Group.

6. Warehouse Inventory Operations

Observation

Warehouse inventories are not routinely taken and there is a lack of segregation of duties with assigned personnel.

Weaknesses in controls over the Physical Plant's warehouse inventory operations increase the risk for inappropriate and inefficient use of inventory resources. Each Physical Plant division maintains its own supplies and equipment warehouse or storage unit. All divisions generally use some type of work order requisition form to withdraw supplies and issue equipment. Supplies are generally reordered when quantities appear low. Inventories of the warehouses and other storage facilities are not routinely performed. The three departments with automated work order systems have the capability within these systems to maintain inventories but this feature is not routinely used except by the Building Maintenance division.

Two divisions have assigned the duties of ordering, receiving, stocking, and issuing supplies to one individual. Other areas have multiple personnel with access to the storage areas.

Divisions have not generally perceived the need to control access to these inventories or to segregate duties among several individuals. Sufficient control is considered to be in place through the use of the work order requisition forms and periodic inspections made by division managers.

6. Warehouse Inventory
Operations (cont.)

These weaknesses in controls result in an increased risk of unauthorized acquisition, use, or distribution of inventories and equipment. By having all divisions purchase items separately, cost economies or efficiencies may not be gained.

The Committee of Sponsoring Organizations 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.”

Recommendation

The University should improve the controls over Physical Plant warehouse inventory operations. Management should ensure that the duties of ordering, receiving, stocking, and distributing inventory items are properly segregated between two or more employees. Physical access to warehouses and the inventoried items should be restricted to the minimum number of personnel necessary to effectively perform the function. Additionally, management should conduct an analysis of the various warehouse operations to determine if it would be cost-effective to consolidate the various warehouse inventory operations into one warehouse. Formal inventory counts of all warehouse inventory items, and reconciliations with the inventory records should be performed on a routine basis.

Management’s Response

The individual department manager will validate the need for the purchase of all supplies and equipment. Physical access will be limited to two designated employees. Locks and keys to this facility will be changed out or confiscated from employees as necessary to ensure security. Formal inventory counts will be conducted bi-annually and reconciled to inventory records. These tasks will be completed by September 30, 2004. The construction and staffing of a central warehouse appears to be cost-prohibitive at this time, but will be considered as the University continues to grow and as additional financial resources can be identified.

BASIS OF REVIEW

Objective

The objective of the audit was to review and assess the financial and management controls over Prairie View A&M University's Physical Plant operations to determine if resources are used efficiently and effectively and in compliance with laws, policies, and regulations.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Texas A&M University System Construction Procedures Manual; the Texas Building and Procurement Commission Procurement Manual; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); the Guide to Performance Measure Management prepared by the State of Texas; and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform to the Institute of Internal Auditors' "Standards for the Professional Practice of Internal Auditing."

Background

The mission of Prairie View A&M University's Physical Plant is "to provide facilities which are conducive to meet the administrative, instructional, and research needs for campus-based and extended campus functions in each unit of the University". To achieve this mission the Physical Plant employs approximately 118 personnel which it allocates to eight functional divisions. The eight divisions include the Business Office, Special Projects Coordinator, Landscape Maintenance, Water/Wastewater/Transportation, Building Maintenance, Space Management, Utilities, and Custodial Services.

The Physical Plant is the second largest physical plant operation within the A&M System, with an annual budget of approximately \$9.3 million. The Physical Plant is responsible for maintaining approximately 664,000 square feet of buildings and 350 acres in grounds. The Water/Wastewater Treatment Division is the primary provider of water and wastewater treatment for the

University, and is the primary wastewater treatment, as well as the back up water supply, for the City of Prairie View.

AUDIT TEAM INFORMATION

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