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Introduction

In accordance with the City Auditor's 2002-2003 Workplan, we have audited the Facilities Management Division of the General Services Department (GSD). We conducted this audit in accordance with generally accepted government auditing standards and limited our work to those areas specified in the Scope and Methodology section of this report.

The City Auditor's Office thanks the Facilities Management staff for giving their time, information, insight, and cooperation during the audit process.

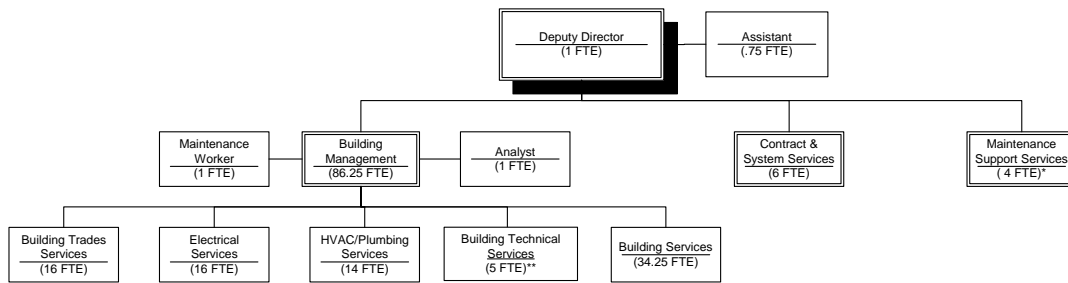
Background

Originally formed in 1982, the Facilities Management Division's (Division) purpose is "to provide safe, efficient, comfortable, attractive and functional buildings and facilities." To accomplish this mission the Division provides operational services such as (1) corrective maintenance, initiated at the request of a City department or an internally-identified system problem; (2) preventative maintenance, routine maintenance checks scheduled periodically with the intent of maximizing the life expectancy of the building component; (3) City department-requested and funded improvements; (4) Mayor, City Council, and/or Redevelopment Agency, and a variety of special interest groups requested special event support; (5) graffiti abatement; and (6) technical services to the City's non-enterprise fund facilities at over 200 sites totaling 1.64 million square feet.

Organizational Structure

The Division consists of the following three work sections: (1) Building Management, which provides preventative and corrective maintenance to the City's non-enterprise facilities; (2) Contracts and System Services, which is primarily responsible for assisting and managing improvement projects; and (3) Maintenance Support Services which is responsible for Indoor Air Quality and Energy Management. During 2001-02 the Division had 100 employees which includes one position funded by Parks, Recreation, and Neighborhood Services and one temporary position. Exhibit 1 is the Division's organizational chart.

Exhibit 1 Facilities Management Organizational Chart



*One position is a temporary position.

**One position is funded by the Department of Parks, Recreation, and Neighborhood Services.

Building Management

As shown above, Building Management is divided into the following five service areas: (1) Building Services; (2) Building Trade Services; (3) Electrical Services; (4) HVAC and Plumbing Services; and (5) Building Technical Services. The five service areas of the Building Management section provide the following services to the City’s non-enterprise fund facilities:

- Routine in-house custodial services in five City facilities;
- Overseeing the City-wide custodial contract which provides cleaning services to the remaining non-enterprise City facilities;
- Carpentry, painting, and electrical work and graffiti abatement;
- HVAC and plumbing support;
- Special events support, including setting-up for community events; and
- Operating the Facilities Management Software (FM1) system used to record and generate maintenance work orders.

The Division is currently in the process of moving to a new computerized maintenance management software, called Datastream (D7i). D7i will be used to maintain inventory, house and record all preventative tasks and schedules, and automatically produce work orders to complete and track work requests from facility users to repair, replace, or modify

buildings. D7i will also be used to deploy staff and track costs. According to Division officials, the new system generates more accurate data and will also aid the GSD in reporting and planning for current and future maintenance needs by compiling cost data and making cost projections. Facilities Management staff launched D7i in April 2003.

*Contracts and
System Services
(CSS)*

The primary responsibility of CSS is to oversee and assist with a large number of improvement projects. Generally, these types of projects derive funding from sources outside the Division's operating budget and are undertaken at the behest of City departments. In coordination with departments, in-house staff or outside contractors identify, design, and complete the work. For contracted-out projects, CSS staff conducts periodic, routine inspections to ensure that the projects are completed in a timely and accurate manner.

*Maintenance
Support Services
(MSS)*

MSS manages six programs, (1) Energy Management; (2) Central Service Yard (CSY) Management; (3) Indoor Air Quality; (4) Non-Profit Facility Maintenance; (5) Hazardous Materials Management; and (6) Storm Water Pollution Prevention. MSS is responsible for:

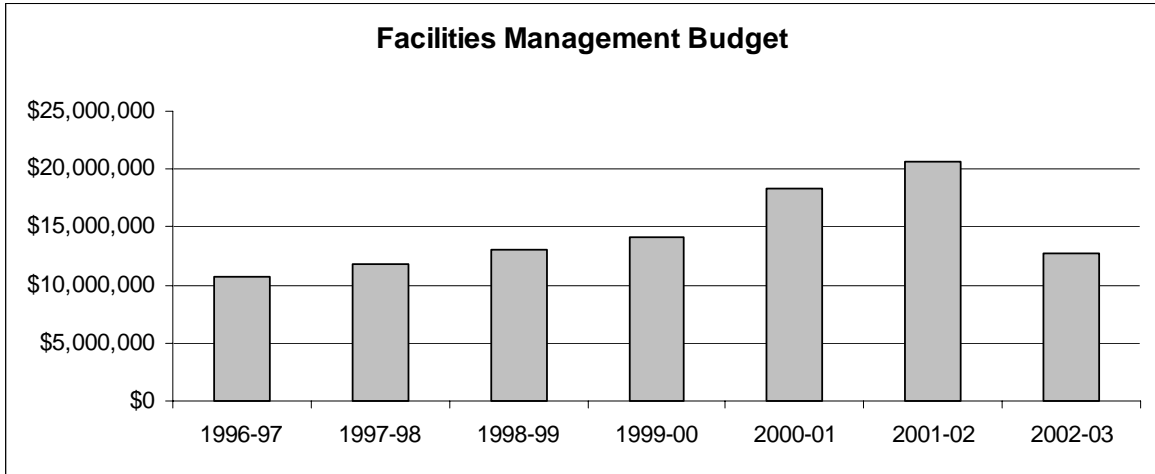
- Acting as the City's Liaison for PG&E issues by resolving any Citywide utility-related issues;
- Identifying and promoting ways to maximize efficiency and recommend feasible energy conservation improvements to implement; and
- Coordinating the disposal of hazardous waste material and ensuring compliance with all laws and regulations regarding such disposal.

Budget

In 2001-02, the Division's operating budget was about \$21 million, which included \$6.3 million in personal services and \$14.8 million in non-personal services. In 2001-02, a component of the Division's \$14.8 million non-personal budget was allocated for rental expenses in the amount of \$8.5 million for the City's leased facilities. However, at the beginning of 2002-03, the GSD shifted funding for leased facilities from the Division to the Strategic Support Division. As a result, the GSD reduced the Division's proposed budget for 2002-03 to about \$12.8 million, which included \$6.9 million in personal

services and \$5.9 million in non-personal services. Exhibit 2 below is a summary of the Division's overall budget from 1996-97 through 2002-03.

Exhibit 2 Facilities Management Budget From 1996-97 To 2002-03



Source: Auditor analysis of Facilities Management Budget.

**Audit Objective,
Scope, And
Methodology**

Our audit objective was to identify the operational threats facing the Facilities Management Division and the controls the Division has in place to prevent, eliminate, or minimize these threats. Specifically, we conducted a Risk Assessment and Vulnerability Assessment of the Division's operational threats and corresponding controls. Based on our Risk and Vulnerability Assessments, we identified several threats for which the Division had no corresponding controls in place.

In developing our Risk Matrix, we reviewed the potential threats associated with the following three Facilities Management work sections: 1) Building Management; 2) Contracts and System Services; and 3) Maintenance Support Services. The Risk Matrix in Appendix B shows the relationship of the specific threats we identified to the controls the Division has in place to prevent, eliminate, or mitigate the associated threats. The controls marked "A" are Actual controls that the Division indicated it had in place, while the controls marked "P" are Potential controls, that we identified based on our preliminary work.

We also conducted an overall Vulnerability Assessment for the Division. A Vulnerability Assessment shows the relationships among (1) a threat's inherent risk, (2) the relative strength of the Division's internal controls, and (3) the Division's level of vulnerability for each threat and the extent of audit testing required.

**Major
Accomplishments
Related To This
Program**

In Appendix E, the Director of General Services informs us of the Facilities Management Division's accomplishments.

Finding I

Facilities Management Needs To Formalize And Implement Agreed-Upon Improvements To Its Internal Control System

The purpose of the Facilities Management Division (Division) of the General Services Department (GSD) is to provide safe, efficient, comfortable, attractive, and functional buildings and facilities. We found that the Division lacked adequate and documented internal controls to mitigate nine of the threats we identified during our Risk Assessment process. Based upon our Risk and Vulnerability Assessments, the Division agreed to develop formal procedures to improve its internal controls in all three work sections.

In our opinion, the Division should continuously update its internal controls as new issues arise and formalize all its internal control procedures in a procedure manual for staff advisement and training purposes. Furthermore, the Division should institute management oversight to ensure compliance with the new procedures.

The Division Lacks Adequate And Documented Procedures And Controls In All Three Work Sections

During the course of our audit we identified 53 threats or exposures associated with the Division's three work sections. Of these 53 threats or exposures we found that the Division had no controls in place for nine of them (17 percent), and only weak controls in place for 19 threats (36 percent).

We identified the Division's lack of adequate and documented internal control procedures through our Risk Assessment process. The complete risk assessment we conducted to identify the Division's threats and controls can be found at Appendix B. The rationale for conducting a risk assessment is that auditors can limit testing and focus on those areas most vulnerable to noncompliance and abuse. We assigned an "A" to those Division controls that we perceived to be actual and existing. We assigned a "P" to those controls that we perceived to be either not formalized potential controls. Those specific threats without an "A" or "P" indicate a complete absence or lack of any control procedure to prevent, eliminate, or mitigate the associated threat.

As illustrated by our Risk Matrix at Appendix B, we identified 53 threats or exposures associated with the Division's operations. We found that of the 53 threats or exposures we identified, the Division had no controls, actual or potential, for nine of the 53 threats (17 percent).

In addition to the Risk Assessment, we also conducted a Vulnerability Assessment (Appendix C). As the Vulnerability Assessment illustrates, we found that the Division had only weak controls in place for 19 threats (36 percent). In our opinion, these weak controls were either inadequate, incomplete, and/or undocumented. Furthermore, we assessed the Division's Vulnerability rating, as "moderate to high" or "high" for 55 percent of the threats we identified. Based upon our Risk and Vulnerability Assessments, the Division agreed to develop formal procedures to improve its internal controls in its five service areas.

Based Upon The City Auditor's Risk And Vulnerability Assessments, The Division Agreed To Develop Formal Procedures To Improve Its Internal Controls In All Three Work Sections

The purpose of the City Auditor's Risk Assessment process is to identify the threats facing the program or operation under audit and to identify the controls or procedures the City has in place to prevent, eliminate, or minimize the associated threats related to 1) compliance with laws, rules, regulations, procedures, and policy; 2) economy; 3) efficiency; and 4) effectiveness. Our Risk Assessment of the Division revealed that it had inadequate and/or undocumented procedures in all three of its work sections. After we shared our Risk and Vulnerability Assessments with the Division, it agreed to develop formal procedures to improve its internal controls in each of its three work sections. Specifically, the City Auditor's Office advised the Division to address the following threats:

- The Division's inefficient organizational structure;
- Unnecessary use of the maintenance contract services for City-owned buildings as well as City-leased and non-profit facilities;
- Inconsistent identification of the project scope for improvement projects;
- Unnecessary or inefficient use of out-sourcing for improvement projects;
- Inadequate documentation of procedures to establish minor public works projects with estimated times for completing each phase;

- Inconsistent project inspections and inefficient project scheduling among project managers;
- Inadequate documentation and procedures for consistent and timely approval of projects; and
- Inefficient procedures for handling indoor air quality complaints and issues.

We advised the Division that standard internal control practices require that procedures should be written, as simple as possible, and not overlap, conflict, or duplicate other procedures. With these principles in mind, the Division developed formal written procedures. Some of the Division's new written procedures have already enhanced the Division's overall operations and produced some cost efficiencies. Specifically, the Division has:

- Reorganized and consolidated staff into work sections by consolidating the MSS section into the Contracts and System Services section. This reorganization and consolidation helped the Division reduce staff by 4 positions from 100 to 96. As a result the Division will save about \$226,000 in 2003-04 of which \$102,000 is a direct result of the Division's new written procedures.
- Developed procedures to enhance the efficiency of its maintenance support efforts by determining if custodial maintenance can be handled in-house rather than contracted out. These procedures will also ensure that an appropriate level of contract oversight is adhered to when custodial maintenance services are contracted out;
- Developed procedures to require project managers to perform a cost benefit analysis prior to beginning work on an improvement project. The new procedures also require project managers to inform the City department of the estimated cost of performing the work both in-house and through out-sourcing;
- Developed procedures to document and assist with project tracking from start to completion. The Division also developed formal, documented inspection forms to aid project managers in consistently inspecting work to ensure compliance with the project scope and recording of project time cycles and costs; and
- Developed procedures to address indoor air quality complaints and issues in a timely and efficient manner.

In our opinion, the Division's newly-developed procedures and processes (Appendix D) should enhance and improve the efficiency and effectiveness of the Division. In addition, the procedures will provide the necessary level of documentation and will help inform staff what is expected of them. Finally, these new procedures will provide added assurance that the Division keeps City departments informed and included in the decision-making process.

The Division developed these new procedures to address the control weaknesses the City Auditor identified during its Risk and Vulnerability Assessment processes¹. However, the Division needs to continue to develop controls and procedures to address additional operational threats as they arise. In our opinion, the Division should incorporate its new procedures into a procedures manual. In addition, the Division should use this procedures manual to advise and train current and new staff. Finally, the Division should institute management oversight to ensure compliance with the new procedures.

We recommend that the Facilities Management Division of the General Services Department:

Recommendation #1:

- **Develop a procedures manual to formally document the developed procedures in Appendix D.**
- **Continuously develop controls and procedures to address additional operational threats as they arise.**
- **Use the procedures manual to advise and train current and new staff.**
- **Institute management oversight to ensure compliance with the new procedures. (Priority 3)**

¹ The City Auditor's Office worked jointly with the Division to provide recommendations and suggestions on its procedures and developed controls. The City Auditor has not audited these procedures but will review them for implementation during the City Auditor's semi-annual recommendation follow-up process.

CONCLUSION

During the course of our audit we found that the Division did not have adequate processes, procedures or controls in place for any of its three work sections. We identified the Division's lack of adequate and documented internal control procedures through our Risk Assessment process. The Division agreed to develop formal procedures to improve its internal controls in each of its five service areas. In our opinion, the Division should 1) develop a procedures manual to formally document the developed procedures; 2) continuously develop controls and procedures to address additional operational threats as they arise; 3) use the procedures manual to advise and train current and new staff; and 4) institute management oversight to ensure compliance with the new procedures.

RECOMMENDATION

We recommend that the Facilities Management Division of the General Services Department:

Recommendation #1

- **Develop a procedures manual to formally document the developed procedures in Appendix D.**
- **Continuously develop controls and procedures to address additional operational threats as they arise.**
- **Use the procedures manual to advise and train current and new staff.**
- **Institute management oversight to ensure compliance with the new procedures. (Priority 3)**

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