

OFFICE OF AUDITS & ADVISORY SERVICES



GENERAL SERVICES BILLING PRACTICES AUDIT

FINAL REPORT

Chief of Audits: Juan R. Perez
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County of San Diego

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JUAN R. PEREZ
CHIEF OF AUDITS

August 30, 2016

TO: April Heinze, Director
Department of General Services

FROM: Juan R. Perez
Chief of Audits

FINAL REPORT: GENERAL SERVICES BILLING PRACTICES AUDIT

Enclosed is our report on the General Services Billing Practices Audit. We have reviewed your response to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board of Supervisors Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Ronald Cosey at (858) 495-5679.

If you have any questions, please contact me at (858) 495-5661.

JUAN R. PEREZ
Chief of Audits

AUD:RC:aps

Enclosure

c: April Heinze, Deputy Chief Administrative Officer, Community Services Group
Tracy M. Sandoval, Deputy Chief Administrative Officer/Auditor and Controller
Brian Hagerty, Group Finance Director, Community Services Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) completed an audit of the General Services Billing Practices. The objective of the audit was to evaluate General Services' current billing practices to determine whether the related controls are designed adequately and working effectively.

Background

An Internal Service Fund (ISF) is a fund used by a government or agency to account for the financing of goods and services provided by one department to the other departments on a cost-reimbursement basis. They are set up to take advantage of economies of scale to avoid duplication of effort and to accurately identify costs of specific governmental services. An ISF sets its rates to recover the full cost of providing a particular service. Government departments have ISF costs built into their operating budgets, and each ISF bills departments for services rendered.

The Department of General Services (DGS) is an internal service department within the County of San Diego. DGS ensures that other County departments have the necessary facilities, workspaces, services, and vehicles to accomplish their business objectives. These services include management of over 410 real estate leases; management of major maintenance and capital improvement projects; facility maintenance, security, and mail management services totaling \$57 million; and acquisition, maintenance and refueling of over 4,100 fleet vehicles. DGS is also a committed leader in energy and sustainability and has been recognized for its efforts in conserving energy resources while promoting expansion of renewable sources of energy in the County. To ensure these critical services are provided, DGS has 378 staff and a budget of \$198.3 million.

DGS funds the cost of the services that they provide to departments via two major ISFs: Facilities Management and Fleet Management. Certain services provided by the DGS require customer departments to budget a specified amount, while other services are charged to departments on use/benefit basis. DGS establishes rates to recover the cost of the services and bills departments via a Deposit, Account Receivable and Reallocation Transfer (DART). The rates are approved by the County of San Diego Cost Commission which was established to review and approve financial transactions between and among County departments to assure proper cost accounting for costing, pricing, and billing. The Cost Commission is comprised of Auditor and Controller staff and finance staff from each of the County's business groups: Community Services, Finance and General Government, Health and Human Services Agency, Land Use and Environment, and Public Safety.

The Facilities Management ISF encompasses five operational business units: Facilities Operations, Project Management, Real Estate Services, Public Service Utilities, and Mail Services.

Facilities Operations is responsible for maintaining County facilities, including buildings, surrounding grounds, parking lots, and contracted services such as custodial, security, and trash removal. DGS allocates Operations and Maintenance (O&M) cost by percentage of occupancy per building, which is based on the department's required level of service and total square footage.

Real Estate Services provides five services, which include Property Management (also known as Asset Management), Engineering, Acquisition Relocation, Valuation, and Acquisition Leasing.

Mail Services provides a variety of services such as pick-up and delivery of inter-office mail to 336 offices Countywide. In addition, Mail Services sorts and processes U.S. mail for County departments and also provides special mail services (e.g., certified, registered, express, insured, etc.).

The Fleet Management ISF is comprised of three business units: Vehicle Maintenance, Equipment Acquisition, and Fuel Administration.

Audit Scope & Limitations

The scope of the audit included DGS' current billing and collection practices for Real Estate Services, Facilities Operations, and Mail Services. The scope also included a review of DGS' billing rate development.

This audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Traced DART transfer amounts to Cost Commission approved rates and the departments' square footage in the Tririga 10¹ system.
- Reviewed spreadsheet formulas for O&M billings and recalculated O&M fees charged to County departments.
- Inspected Real Estate Services Provider Expenditure labor reports and re-performed calculations of provider costs based on staff labor hours and approved rates.
- Observed Mail Services processes, reviewed spreadsheet formulas for mail fees, and recalculated department's mail fees.
- Inspected Property Management leases, fiscal statements and rent payments, and re-performed administrative fee calculations.
- Reviewed the cost allocation plan and working capital reserve calculations.

¹ IBM Tririga 10 is an Integrated Workplace Management system to manage the life cycle of facilities, providing real estate and facilities management for public enterprises.

- Reviewed Facilities Management and Fleet Management ISF revenues and costs reports.
- Reviewed Cost Commission minutes and the process for developing ISF approved rates.

AUDIT RESULTS

Summary

Within the scope of the audit, General Services' billing practices were satisfactory overall. However, OAAS identified opportunities for improvement in calculating property management administrative fees as listed below:

Finding I:

DGS did Not Calculate Property Management Administrative Fees Correctly

Real Estate Services charged 14 departments a total of \$182,959 in administrative fees for the property management services they provided during the FY 2014-15. OAAS judgmentally selected 23% of the administrative fees to test the accuracy of the charges billed. The sample represents administrative fees for 6 of the 14 departments totaling \$41,551. Our test revealed that Real Estate Services inaccurately charged all 6 departments tested.

Real Estate Services was required to charge departments 5.15% of the actual annual lease cost, with a minimum of \$500 per lease. This rate was approved by the Cost Commission.

The fee calculation did not accurately reflect the cost of living adjustments (COLA) that become effective on the anniversary of the lease's commencement date. While this date was different for each lease, the staff calculated the COLA adjustment at the same point in time for all the leases.

As a result, Real Estate Services overcharged one of the departments in our sample \$293 in administrative fees and undercharged the remaining five departments a total of \$9,439.

Recommendation:

Management should revise the methodology for calculating the property management administrative fees to ensure they accurately reflect the COLA adjustments.

Office of Audits & Advisory Services

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Department's Response



County of San Diego

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August 23, 2016

RECEIVED

TO: Juan R. Perez, Chief of Audits
Office of Audits and Advisory Services

AUG 23 2016

OFFICE OF AUDITS &
ADVISORY SERVICES

FROM: April F. Heinze, Director
Department of General Services

Department Response to Audit Recommendation: General Services Billing Practices Audit

Finding I: DGS Did Not Calculate Property Management Administrative Fees Correctly

OAAS Recommendation: Management should revise the methodology for calculating the property management administrative fees to ensure they accurately reflect the cost of living adjustments (COLA).

Action Plan: The Department of General Services (DGS) agrees with this audit recommendation.

DGS will complete a true up of costs in June of each fiscal year based on the actual rent collected for property management. DGS will further evaluate the billing process as it pertains to administrative fees and will implement any other necessary modifications.

Planned Completion Date: July 14, 2017

Contact Information for Implementation: Danielle Enriquez, Chief, Departmental Operations, Department of General Services (858) 694-2396.

If you have any questions, please contact me at (858) 694-2527.


APRIL F. HEINZE, Director
Department of General Services