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Evidence Document

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Office of Internal Audit

Internal Audit of the Remodeling and Improvement Account May 2014

Additional information:

**Wichita State University
Internal Audit of the
Remodeling and Improvement Account
May 2014**

**Chris Cavanaugh
Director of Internal Audit**

**Management Response Provided By
Woodrow K. DePontier
Director of Physical Plant**

**Distribution: John W. Bardo
Ted D. Ayres
Margaret M. Carter
Mary L. Herrin
Woodrow K. DePontier**

Wichita State University

Internal Audit of the Physical Plant

Remodeling and Improvement Account

May 2014

Objective

Evaluate the adequacy of Physical Plant procedures and internal controls for monitoring expenditures made from the Remodeling and Improvement Account, offering suggestions for improvement where appropriate.

Scope

Account activity from fiscal year 2010 through fiscal year 2014 (as of March 31, 2014).

Introduction

Once fall enrollment figures were known each year, former WSU President Donald Beggs would authorize Vice President for Administration and Finance Mary Herrin to hold designated general fees funds (tuition revenue) to use toward remodeling and improvement projects. Ms. Herrin would then initiate budget adjustments to make the funds available in the Remodeling and Improvement Account (Org 108328) as needed. During the years covered by the audit, \$9,478,260 was transferred to the Remodeling and Improvement Account with the largest portion, \$5,189,625 transferred during fiscal year 2012, the last year of Dr. Beggs' tenure as president.

Remodeling and improvement projects completed during the years under audit addressed both deferred maintenance needs and aesthetic enhancements across campus. The largest of those projects were:

- Alumni Drive pedestrian plaza – \$619,601
- Police Station HVAC system – \$425,265
- Wilner Auditorium air conditioning – \$383,079
- Duerksen Fine Arts Center interior doors – \$300,000
- Rhatigan Renewal electric line relocation – \$295,200
- Upgrade finishes to the Duerksen Fine Arts Center – \$258,530
- Visual Communications Building east expansion – \$254,195
- Child Development Center storm shelter – \$254,159

Physical Plant Director Woodrow “Woody” DePontier (with the aid of Physical Plant accountant Margaret Carter) oversees the activity in the Remodeling and Improvement Account. In addition to Ms. Herrin, Mr. DePontier confers with a team of university officials (either collectively or individually) to establish priorities among the many possible projects. Those persons include:

- Emily Patterson, Assistant Director for Facilities Planning
- John Gist, Assistant Project Manager for Facilities
- Roger Dick, Director of Architectural and Engineering Services
- Randy Pulec, Director of Facility Maintenance
- Klent Harkness, Director of Environmental Control

This team will also include the Director of Facilities Planning when the position is filled.

In my audit entrance meeting with Vice President Herrin, Mr. DePontier and Ms. Carter, Ms. Herrin expressed a desire to see improved documentation of the oversight process for the Remodeling and Improvement Account, including how funds are allocated to the various projects.

Summary

Observations addressed in this report include:

1. The process used by Ms. Carter to monitor funds available for remodeling and improvement projects did not identify a significant funding discrepancy or identify an electricity invoice incorrectly charged to the account.
2. In addition to expenditures for remodeling and improvement projects, the Remodeling and Improvement Account has been used by the Physical Plant for repairs and maintenance services and supplies.
3. During the audit, I collaborated with Ms. Herrin, Mr. DePontier and Ms. Carter to document the process for allocating funds to projects and monitoring the funds available in the Remodeling and Improvement Account.

Observation 1

The process used by Ms. Carter to monitor funds available for remodeling and improvement projects did not identify a significant funding discrepancy or identify an electricity invoice incorrectly charged to the account.

At the beginning of the audit, Ms. Carter provided schedules that detailed all remodeling and improvement projects completed and in-progress during the audit period. The schedules showed \$957,325 remaining available for projects as of March 31, 2014. However, when I subsequently reviewed the university's accounting records, they showed only \$425,438.85 remaining (a \$531,886.15 difference). While it's not unusual for a department's internal records to reflect a different balance in comparison to the balance displayed by the university's records, the difference is typically reconciled by identifying transactions processed by either the department or the university that the other unit has not yet recorded. When I asked Ms. Carter about the difference, she was unsure of its cause.

To identify the cause of the discrepancy, I downloaded all of the transactions in the account for the years under audit into an Excel spreadsheet to better facilitate sorting and reviewing the data. Because the university's records reflected a lower balance than Ms. Carter's, I first looked for expenditures that may have been charged to the account in error. Through this process, I identified a \$13,427.56 payment made to Westar Energy on August 13, 2012 that should have been charged to Electricity (Org 108312) rather than Remodeling and Improvement (Org 108328). This was an error that requires correction, but it did not fully explain the discrepancy. Ms. Carter remarked that this was an error that she should have identified through her monthly review process.

Next I focused on the general fees allocated to the account. This is where I observed an anomaly in the way funding followed encumbrances (unexpended committed funds) that were annually rolled to the next fiscal year. I observed that funding for the encumbrances was provided for fiscal years 2010, 2013 and 2014, but not for fiscal years 2011 or 2012. The necessary funding for encumbrances in those years was \$357,490 and \$251,866.39 respectively. In effect, the account was shortchanged \$609,356.39 for the two years combined. When I inquired of Lois Tatro, Director of Financial Operations and Business Technology, how the error might have occurred, Ms. Tatro surmised that fiscal year 2011 was the first year of the "SMART" system (Statewide Management, Accounting and Reporting Tool) at the state level and the transition may have contributed to the oversight, which was repeated the next year as well.

The remaining difference between Ms. Carter's internal records for the Physical Plant and the university's records pertained to items of a more routine nature (such as open encumbrances). In my conversations with Ms. Carter, she explained that her monthly reconciliation includes a detailed review of expenditures charged to the account. In that the account's available balance first reflected a \$357,490 funding shortfall in fiscal year 2011, coupled with an additional \$251,866.39 funding shortfall in fiscal year 2012, I suggest increased emphasis on reconciling and verifying the available balance at each month-end would be worthwhile.

With the corrections, I estimate the Remodeling and Improvement Account will have \$1,059,223 with \$573,772 committed to projects already in progress and \$485,451 uncommitted and available for future projects.

Management Response:

To rectify the electricity charge, Ms. Carter submitted a journal voucher to restore \$13,427.56 to the Remodeling and Improvement Account from Electricity (Org 108312).

To rectify the funding shortfall related to the 2011 and 2012 encumbrance rolls, Ms. Herrin directed the University Budget Office to process a journal voucher to restore \$609,356 to the account from the university's Contingency Fund (Org 101508), the fund from which remodeling and improvement funds are typically drawn. Going forward, Ms. Carter will place increased emphasis on reconciling and verifying the available balance at each month-end, following up on discrepancies as necessary.

Observation 2

In addition to expenditures for remodeling and improvement projects, the Remodeling and Improvement Account has been used by the Physical Plant for repairs and maintenance services and supplies.

This has occurred partly because the nature of the expenditures to be made from the account has not been clearly defined, and because not all projects are reviewed and approved at an administrative level higher than the Director of Physical Plant. Though “remodeling and improvement” suggests relatively large-scale projects, I also observed expenditures for the following items that are more aptly categorized as repairs and maintenance or operating expenses:

- Chilled water loop chemicals – \$30,481
- Central Energy Plant chemicals – \$13,924
- Two-way radios – \$13,871
- Parking lot striping – \$11,164
- Test chillers at Central Energy Plant – \$10,818
- Boiler chemicals for Central Energy Plant – \$6,699
- Line striping system – \$6,650
- Canon plotter – \$5,832
- Spreaders for Landscape Department – \$5,167
- Paint shaker – \$4,994
- Variable frequency drives (VFD) – \$3,500
- Stripe Metropolitan Complex parking lot – \$3,171
- Repair VFD at Central Energy Plant – \$2,980

I suggest establishing written guidelines for how the Remodeling and Improvement Account is to be used, and that all projects shall be reviewed and approved in advance by the Vice President for Administration and Finance before commencing.

Management Response:

During the recession, the Physical Plant was subjected to severe budget cuts so it utilized the Remodeling and Improvement Account to fulfill certain urgent needs. Going forward, budget shortfalls shall be addressed with Vice President for Administration and Finance Herrin. In addition, all projects funded through the Remodeling and Improvement Account will be reviewed and approved in advance by Ms. Herrin, with a written record of her approval (memorandum or printed email) retained in the appropriate project folder. The Physical Plant has adopted the following guidelines for the account:

The Remodeling and Improvement Account shall be used only for projects that improve, adapt or restore a university facility (or area therein) or university grounds. Generally, remodeling and improvement projects will 1) extend the useful life of a facility or 2) reconfigure or enhance a facility or grounds. Examples of appropriate projects include repair and replacement of utility lines, boilers, heating

and air conditioning systems, roofs, elevators, fencing and outdoor lighting. Also acceptable are structural repairs to facilities, landscaping and irrigation projects. Painting, carpeting, lighting, office furniture, doors, windows, blinds, moving and storage expenses are acceptable when part of a remodeling project. Expenditures for fire alarm testing shall also be permitted.

Nonstructural repairs and maintenance expenditures are prohibited from the Remodeling and Improvement Account. A repair restores an item to its previous good condition while maintenance keeps an item in good working order. Repairs and maintenance can include expenditures for services or supplies, or tools and equipment for used for repairs and maintenance. Examples of nonstructural repairs and maintenance expenditures include central energy plant chemicals, painting supplies and equipment and groundskeeping supplies and equipment. Parking lot and sidewalk repairs and maintenance shall be made from the Parking Lot System Maintenance and Construction Fund.

Observation 3

During the audit, I collaborated with Ms. Herrin, Mr. DePontier and Ms. Carter to document the process for allocating funds to projects and monitoring the available balance in the Remodeling and Improvement Account.

The results of our collaboration resulted in the following procedures:

1. Mr. DePontier consults with relevant university officials (either collectively or individually) to identify potential projects and establish priorities based on account guidelines.
2. Ms. Herrin will review and approve in advance all projects that are to be funded through the account.
3. Ms. Carter will prepare a project folder and detail sheet for each project approved.
4. Ms. Carter will retain Ms. Herrin's express written approval (memorandum or printed email) for a project in its folder.
5. Ms. Carter will list each transaction on the applicable detail sheet when a purchase order, invoice control document (ICD) or service request is processed.
6. Ms. Carter will update the list of project balances at least monthly, or more frequently depending on transaction activity.
7. Ms. Carter will review transactions recorded in Banner monthly with an emphasis on reconciling and verifying the available balance at each month-end, following up on discrepancies as necessary.

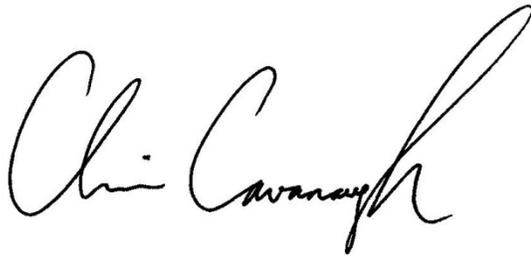
8. Ms. Carter will consult with Mr. DePontier to identify other projects from which to transfer funds (internally among projects), should a project require additional funding.
9. Ms. Carter will provide an annual report of projects completed and remaining funds available to Ms. Herrin and Mr. DePontier, with the remaining funds available on the annual report verified to (or reconciled with) the balance displayed by Banner from the university's accounting records. Ms. Carter will consult with Ms. Tatro to verify or reconcile the year-end balance as needed.

Management Response:

The procedures delineated in this audit report captures our current process and adds the additional review, approval and reporting requirements suggested by the audit director.

Statement on Auditing Standards

I conducted my audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors.

A handwritten signature in black ink, appearing to read "Chris Cavanaugh". The signature is fluid and cursive, with a large loop at the end of the last name.

Chris Cavanaugh
Director of Internal Audit