

**PHYSICAL PLANT DEPARTMENT
REVIEW OF CONTRACTING SERVICES FOR
MAINTENANCE AND IMPROVEMENTS**

THE UNIVERSITY OF NEW MEXICO

**Report 2013-09
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THE UNIVERSITY *of*
NEW MEXICO

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CONTENTS

EXECUTIVE SUMMARY	1
CONCLUSION.....	2
INTRODUCTION.....	3
BACKGROUND	3
PURPOSE.....	5
SCOPE.....	5
OBSERVATIONS, RECOMMENDATIONS AND RESPONSES.....	6
CONTRACTOR SELECTION - QUOTE SOLICITATION.....	6
CONTRACTOR SELECTION - PPD SUPERVISOR/MANAGER REVIEW AND APPROVAL	7
EQUIPMENT WARRANTY INFORMATION.....	8
BID OPENING	9
CONTRACTOR PAYMENT - DETAILED QUOTE AND INVOICE INFORMATION (EQUIPMENT, MATERIAL AND LABOR SPECIFICATIONS).....	10
CONTRACTOR PAYMENT - SUPPORT FOR CHANGE ORDER INCREASE	11
APPROVALS	13

ABBREVIATIONS

CO.....	Change Order
HSC.....	Health Sciences Center
IRP.....	Internal Request for Preparation
JOC.....	Job Order Contracting
PPD.....	Physical Plant Department
Procurement Code.....	New Mexico Procurement Code
PO.....	Purchase Order
PR.....	Purchase Requisition
RFP.....	Request for Proposal
University.....	University of New Mexico
UNM.....	University of New Mexico

EXECUTIVE SUMMARY

As part of the fiscal year 2013 audit plan, the Internal Audit Department conducted an audit of The University of New Mexico (UNM) Physical Plant Department (PPD) repair and maintenance operations, specifically contracted services. The overarching objective was to ensure that the Request for Proposal (RFP) to build the University On-Call Contractors List complied with the New Mexico Procurement Code. The audit focused on review of how PPD contracts with construction contractors to ensure equitable selection process, how PPD reviews their work and invoices to ensure that the University receives the work contracted for, and how they track equipment warranties to determine if work/repairs may be covered under warranty.

The audit procedures required review of PPD work order files, purchase orders, contractor quotes or proposals, and contractor invoices for compliance with University Administrative Policies and Procedures and PPD-specific procedures. The following summary provides management with an overview of our recommendations to address areas for improvement discovered during the audit.

CONTRACTOR SELECTION - QUOTE SOLICITATION

According to the University's On-Call Procedures, it is PPD's responsibility to solicit quotes when working with an On-Call contractor for projects under \$500,000. In order to provide for fair/equal opportunity to On-Call contractors, PPD should solicit at least three quotes. In thirteen of the projects reviewed, files lacked documentation to support that PPD solicited at least three quotes.

PPD Administration should adopt uniform procedures to ensure that, at minimum, they solicit three On-Call Contractors when a job is available, and that they keep documentation of such required solicitations on file.

EQUIPMENT WARRANTY INFORMATION

The University does not keep equipment warranties in a central location. This makes it difficult to verify equipment warranty information. Absent warranty information to include equipment location, make, model and warranty terms (beginning and end dates), it is possible the University will pay for warrantied repairs.

In thirteen of the sixty-nine transactions reviewed, a review of transaction support indicated that PPD installed small equipment as part of the work performed. PPD could not provide warranty information for any of the thirteen equipment items; there was no record of warranty information in the automated system or work order files.

PPD Administration should implement the equipment warranty procedures, educate area technicians, supervisors and managers about the process, and ensure that they keep all equipment

warranty information in PPD's computerized maintenance management system module, called TMA.

BID OPENING

The New Mexico Procurement Code directs that bid solicitors open sealed bids in public with one or more witnesses present. Internal Audit reviewed three bid files. In two of the three cases, the files lacked any documentation that, at minimum, two persons (the opener and the witness) were present at the opening of the bids.

The Chief Procurement Officer should ensure that one or more witnesses are present at the time of bid opening, as evidenced by signed confirmation of those in attendance on the Bid Opening form, or by another implemented and documented method.

CONCLUSION

PPD generally complies with University Administrative Policies and Procedures Manual regarding construction-contracting services. PPD divides maintenance into four areas, employing four different managers charged with upkeep and maintenance of their particular area. The challenge is to ensure that all areas are working in a uniform fashion to comply with in-house PPD procedures and ultimately with the University Administrative Policies and Procedures Manual on every procured contractual service. PPD should fully employ the TMA module available to them for tracking small equipment warranties, and should develop a uniform procedure for documentation of contractor quote solicitations.

INTRODUCTION

BACKGROUND

PPD is responsible for the care and upkeep of the physical campus environment. Additionally, the department maintains the University's district energy system providing electricity, steam, chilled water and domestic water through its own distribution systems.

An excerpt from the PPD's 5-year Strategic Plan states:

The Physical Plant Department is responsible for the care and upkeep of the physical campus in a manner that affords the campus community with an environment conducive to education, research and public service. This includes the indoor and outdoor environment of what is commonly referred to as the north campus, main campus and south campus. Additionally, the department maintains the University's district energy system providing electricity, steam, chilled water and domestic water through its own distribution systems.

PPD assigns maintenance and upkeep of the campus by "area." There are four campus areas. They include various geographic areas of the University main campus and the Health Sciences Center (HSC). Per the PPD web page, Maintenance Shops and Remodel tend to the tasks of campus maintenance and regular upkeep:

The area shops provide daily, regular, and preventive maintenance, and respond to customer requests for minor repairs and modifications. Campus customers may request maintenance and repair by calling the PPD call center at 277-1600. Each shop is staffed with technicians representing the various trades: plumbing, HVAC (heating, ventilation, and air conditioning), electrical, painting, carpet laying, and carpentry. The areas are supported by shops providing signs, locks, sheet metal fabrication, and welding.

The Remodeling team provides heavy repair and renovation services. Customers seeking remodeling or renovation work for their department should contact their PPD *(sic)* maintenance office. The area manager will contact UNM's internal remodeling services or the services of commercial contractors.

Due to fluctuations in department demand for remodel services, the Remodel Section relies on construction contractors to supplement our Remodel crew. Job Order Contracting (JOC) is *(sic)* flexible method for shortening our response time and serving our remodel customers in a more professional way. Thus, our Remodel Section has an organizational model that features a small in-house construction staff for renewal projects of limited scope, while coordinating and managing larger scale projects via Job Order Contracting.

INTRODUCTION

PPD utilizes TMA to monitor and track minor capital project expenses. PPD makes every attempt to record project expense to Cost of Goods Sold - Contractors, account code 8043 in the Banner accounting system. As a result, this audit selected samples from the population of transactions posted to that account code. This method allowed for the best selection of construction-contracted transactions, the majority procured via the On-Call Contractor process.

In FY12, PPD recorded \$6,277,657 to Cost of Goods Sold - Contractors. Below is a table of the vendors that PPD paid over \$100,000 in FY12; they represent 64% of the total. Our sample selected each transaction greater than \$20,000 from the vendors identified below.

Kone Inc.	\$784,402
All Fired Up Enterprises Inc.	487,711
3B Builders Inc.	461,227
Harrison Contracting Co. Inc.	266,802
Altor Construction Inc.	264,846
Donner Plumbing & Heating	246,822
Walter Parker Co. LLC	202,988
BCH Construction Inc.	168,058
US Electrical Corp.	149,411
Preferred Painting Inc.	148,474
Vigil Contracting Services Inc.	144,160
Westwind Landscape Construction Inc.	141,997
National Roofing Co. Inc.	122,622
Sunray Construction Inc.	113,174
Raby Companies Inc.	110,458
JB Henderson Construction Co. Inc.	106,135
Yearout Mechanical Inc.	102,566
Total	\$4,021,853

In the first six months of FY13, PPD recorded \$3,976,102 to Cost of Goods Sold - Contractors. The table below lists the vendors paid over \$100,000; they represent 50% of the total. Our sample selected the largest transaction from each of the vendors listed below.

Longhorn Construction Services Inc.	\$465,914
BCH Construction Inc.	365,238
Kone Inc.	340,193
3B Builders Inc.	254,136
Ram Jack of New Mexico	188,615
AUI Inc.	143,927
All Fired Up Enterprises Inc.	137,065
National Roofing Co. Inc.	112,134
Total	\$2,007,222

In total, Internal Audit selected sixty-nine transactions for review. The total transaction amount for the sixty-nine transactions tested was \$3,163,298, representing 31% of the total transaction amounts recorded to Cost of Goods Sold - Contractors in FY12 and the first six months of FY13.

PURPOSE

The objective of the audit was to review PPD's contracting services procedures for maintenance and improvements, to:

- Ensure compliance with the New Mexico Procurement Code;
- Determine equitable contractor selection process;
- Verify cost efficiency of work received (that the University has a process to ensure that it is getting the best price and quality of work with each contracted service); and
- Verify adequate documentation of equipment warranties.

SCOPE

The scope of the audit includes review of PPD contracted service transactions for maintenance and improvements from July 1, 2011 through December 31, 2012. The Internal Audit Department completed fieldwork on April 5, 2013. Internal Audit's procedures included interviewing personnel and reviewing:

- Purchasing Department RFP process for formulation of the On-Call list;
- PPD's quote solicitation process and contractor selection process;
- PPD's contractor invoice review/approval process;
- Change Order support as applicable to selected contractor payments; and
- PPD's equipment warranty process.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

CONTRACTOR SELECTION - QUOTE SOLICITATION

In thirteen of the projects reviewed, the files lacked documentation to support that PPD solicited at least three quotes.

The Purchasing Department has derived a process that complies with the Procurement Code to facilitate faster procurement of construction-contracted services. Their process requires a RFP to develop a pre-qualified list of On-Call vendors that PPD can contact for work without having to go through a lengthy RFP process each time they request a job under \$500,000. When PPD receives a work order that requires construction services, they can procure the services of an On-Call vendor by means of an abbreviated procurement process.

PPD is charged with the task of soliciting quotes when working with an On-Call contractor. In order to provide for fair/equal opportunity to On-Call contractors, PPD should solicit at least three quotes. During the review of transactions selected for this audit, Internal Audit determined contractors invited to submit a quote did not always submit a quote.

Internal Audit noted that there are two PPD areas that retain documentation of quotes solicited, PPD Remodel and Grounds Maintenance. The two departments employ different methods; both are acceptable, and PPD Administration may want to model a uniform approach by either of the two areas.

Recommendation 1

PPD Administration should document uniform procedures to ensure that all areas are soliciting at least three bids for each On-Call contracting job, and that they keep documentation to support what contractors PPD invites to submit a quote.

Response from Physical Plant Department Director

Action Items
<i>Targeted Completion Date: July 1, 2013</i>
<i>Assigned to: Director, Physical Plant Department</i>
<i>Corrective Action Planned: Use approved bidder document form department wide. Include it in the Physical Plant Department Standard Operating Procedure manual. Form to be included in all project files.</i>

CONTRACTOR SELECTION - PPD SUPERVISOR/MANAGER REVIEW AND APPROVAL

In six of sixty-one files tested, files lacked documentation to support any PPD Manager/Supervisor review of quotes received and contractor selection.

Per On-Call procedures, PPD is charged with soliciting quotes, reviewing them, and recommending their choice to Purchasing via a Purchase Requisition (PR). The intent of this requirement is to assure best contractor selection, by not only lowest quote but also job specifications and timeline.

PPD has an internal "Request for Preparation" form that serves to document PPD Manager/Supervisor review of quotes received via a required signature box. By signing the form, it is an attestation that a PPD Supervisor/Manager reviewed the quotes and made their best judgment/selection. Absent that signed form, there is no documented evidence to support PPD Manager/Supervisor quote review and contractor selection.

Recommendation 2

PPD Administration should review the PPD Accounting Policy and Procedure with area supervisors and managers and ensure that:

- PPD Supervisors/Managers are aware of their duty to document review and approval of contractor quotes and selection.
- The internal form "Request for Preparation" is properly completed, signed and submitted to PPD Accounting.

Response from Physical Plant Department Director

Action Items
<i>Targeted Completion Date: July 1, 2013</i>
<i>Assigned to: Director, Physical Plant Department</i>
<i>Corrective Action Planned: Meet with Physical Plant Department managers, supervisors, project manager, expeditors, and appropriate accounting personnel to review policy and procedure for Internal Request for Preparation (IRP) form. At same meeting, new purchasing guidelines will be presented (By Bruce Cherrin). Meeting scheduled for June 12, 2013.</i>

EQUIPMENT WARRANTY INFORMATION

Review of transaction support indicated that PPD installed equipment as part of the work performed in thirteen of the sixty-nine transactions reviewed. PPD could not provide warranty information for any of the thirteen equipment items; there was no record of warranty information in the automated system or work order files.

The University does not store warranties in a central location. This makes it difficult to verify equipment warranty information. Absent warranty information to include equipment location, make, model and warranty terms (beginning and end dates), it is possible the University will pay for warranted repairs.

While working with PPD to verify receipt of warranty information for installed equipment, PPD informed Internal Audit that TMA does have a module that can be used to record warranty information. PPD provided a sample report for a piece of equipment not on Internal Audit's test work list, and a sample of the Equipment Data Sheet that the technician or area supervisor/manager should complete and forward to the Preventive Maintenance Coordinator for data entry into the TMA system.

It appears that PPD does have the tools and processes available to adequately record and monitor equipment warranties, but needs to ensure that PPD staff enters equipment warranty information obtained into the system.

Recommendation 3

PPD Administration should document the equipment warranty procedures, educate area technicians, supervisors and managers about the process, and ensure that the department keeps all equipment warranty information in the TMA module.

Response from Physical Plant Department Director

Action Items
<i>Targeted Completion Date: Commencing immediately</i>
<i>Assigned to: Associate Directors</i>
<i>Corrective Action Planned: The Physical Plant Department has a warranty process in place. Equipment will be identified to be included in the warranty process based on major building components that require scheduled preventive maintenance per the manufacturer's specifications. PPD will additionally evaluate mission critical components, price etc.</i>

BID OPENING

Internal Audit reviewed three bid files for compliance with the Procurement Code. In two of the three cases, the files lacked documentation that two persons were present when Purchasing opened the bids.

The NM Procurement Code Section 13-1-107, Competitive sealed bids; bid opening states:

Bids shall be opened publicly in the presence of one or more witnesses at the time and place designated in the invitation for bids. The amount of each bid and each bid item, if appropriate, and such other relevant information as may be specified by the state purchasing agent or a central purchasing office, together with the name of each bidder, shall be recorded, and the record and each bid shall be open to public inspection.

The Purchasing Department manages the bid administrative process and has an established practice to promote compliance with the Procurement Code. The “Vendor List/Bid/Proposal Opening Summary Form” is the mechanism to record the buyer and witness present at time of bid opening by way of their signature. The buyer charged with opening the bids should complete the form. The form has designated areas to complete the bidder’s name, summary of documents received, and the bid amount. The buyer and at least one witness should sign the form upon completion of the bid opening process.

Recommendation 4

The Chief Procurement Officer should ensure that one or more witnesses are present at the time of bid opening as evidenced by signed confirmation of those in attendance on the Bid Opening form.

Response from the Chief Procurement Officer

Action Items
<i>Targeted Completion Date: Already completed 5/22/13</i>
<i>Assigned to: Chief Procurement Officer</i>
<i>Corrective Action Planned: We concur with the recommendation as it pertains to Invitations for Bid, although the witness law NMSA 13-1-107 does not apply to Requests for Proposals. The issue was not that there wasn't a witness for these two IFB openings, but rather that in each case our Contracts Specialists failed to document the witness on our internal form. Immediately following our Exit Conference with Internal Audit, the Chief Procurement Officer met with the Purchasing staff and reminded them to be sure to have their IFB forms signed by the witness.</i>

CONTRACTOR PAYMENT - DETAILED QUOTE AND INVOICE INFORMATION (EQUIPMENT, MATERIAL AND LABOR SPECIFICATIONS)

Quotes/proposals and invoices for forty-nine of the sixty-nine transactions tested did not contain specific equipment, material and labor information regarding the work performed. Absent that information, Internal Audit could not determine that charges for selected work were fair and cannot compare the quality of material or equipment from contractor to contractor. On occasion, the scope of work will have some detail regarding equipment specifications.

It is UNM's current practice to request "fixed price" quotes and to select the contractor with the lowest quote. Under this practice, there is no guarantee that lowest price equals best value. Additionally, absent material and labor specifications, Internal Audit cannot compare labor and overall job quality. Job managers are responsible for providing the scope of work required, soliciting quotes, reviewing them, and making a recommendation for preferable contractor selection.

Recommendation 5

The Purchasing Department should consider requiring more specific proposals/quotes. The quotes should include specific equipment information and cost, labor hours and type, material amount, and cost. The resulting invoices should include the specific equipment type and cost as well as labor type and quantity charges.

Response from Chief Procurement Officer

Action Items
<i>Targeted Completion Date: 9/30/13</i>
<i>Assigned to: Chief Procurement Officer</i>
<i>Corrective Action Planned: We agree with the recommendation. We will consider requiring more specific proposals/quotes on our on-call remodel jobs where we identify that there could be a significant cost segregation benefit to UNM. We will work with PPD to develop a process to identify cost segregation possibilities for small projects.</i>

CONTRACTOR PAYMENT - SUPPORT FOR CHANGE ORDER INCREASE

Internal Audit noted three instances where PPD completed a Change Order (CO) to increase the Purchase Order (PO) amount. The only information provided on the PO, is the change order number and simple language informing of the increase amount and reason due to “additional work.” PPD houses detail to support the additional work required, and a specific estimate of cost to complete the additional work, in the PPD files and only provides the detail to Purchasing for their review upon request.

Per the University’s PO Standard Terms and Conditions, the PO “is the sole and entire Agreement between the parties.” Purchasing and Accounts Payable Policies and Procedures state:

A Purchase Order is the basic procurement contract issued to all off campus sources for goods and/or services. This document is a legal contract binding the University and the Vendor. A Purchase Order provides details about the goods and/or services the University wishes to purchase including a description, price per unit, quantity being purchased, and delivery date.

The Purchasing Department is charged with final approval of all CO’s and should review support for a PO increase before approving the CO. Detailed CO support should be part of the electronic data kept with the CO request in Banner.

Recommendation 6

The Purchasing Department should require detailed work and pricing support for a CO prior to approving it, and should keep said documentation with the request.

Response from Chief Procurement Officer

Action Items
<i>Targeted Completion Date: 9/1/13</i>
<i>Assigned to: Chief Procurement Officer</i>
<p><i>Corrective Action Planned:</i> <i>We agree with the recommendation to an extent, but only for Change Orders that materially alter an On-Call Purchase Order. We do not agree that every minor change to an On-Call PO should require significant backup, as this would simply not be a cost-effective use of University resources. It is important not to lose sight of the fact that most changes are minor, and that there is a cost/benefit relationship inherent in the level of documentation that should be required based on the size and nature of each Change Order. On occasion, however, larger change orders can be required due to unforeseen circumstances once a remodel begins.</i></p> <p><i>The Chief Procurement Officer will review best practices and establish a standard for On-Call change orders that requires backup at certain thresholds. Additional backup documentation will be obtained only for these “significant” Change Orders that exceed the thresholds that we establish.</i></p>

APPROVALS



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Approved for Publication



Chair, Audit Committee