The University of Texas Medical Branch
Audit Services

Audit Report
Utilities Business Services
Engagement Number 2017-013
February 2017
Utilities Business Services
Engagement Number: 2017-013

Background
The University of Texas Medical Branch’s (UTMB’s) Institutional Handbook of Operating Procedures (IHOP) Policy 04.05.01 Service Centers describes service centers as “activities that provide goods or services to the UTMB community. Service centers charge the user a rate based on actual cost incurred in providing the good or service. It is the expectation that service center rates will be sufficient to cover the cost of operations.” Service center plans cover a five-year span at the conclusion of which the center should be operating at a break-even point.

The mission of the Business Operations & Facilities Utilities division (Utilities) is “To provide the University of Texas Medical Branch with a safe, productive and energy efficient work environment. This is accomplished by the production and distribution of utilities from district energy plants, providing engineering and technical support to Facilities and Campus Services thru the application of sound economic and business practices.”

The Utilities operating budget for fiscal year (FY) 2017 totals $34 million, of which $24 million is allocated to cover gas, water, and electricity related costs. The remaining $10 million is allocated to administrative costs, facility maintenance, debt service and depreciation. Utility charges for Campus Services, Auxiliary Enterprises, and Sealy & Smith facilities are based on an annual budgeted amount formulated from historical utilization. Shriners Hospital and the Alumni Field House utility charges are based on meter readings.

Audit Objectives
The primary objective of this audit is to assess the Utilities Business Services’ operational controls and compliance with policies and procedures related to service center financial planning, rates, and billing.

Scope of Work and Methodology
The scope of work is current operations. Our methodology included interviews with key Utilities Business Services personnel; review of Utilities Business Services’ rate methodology and financial plan; and limited transaction testing.

The audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

Audit Results
Financial Plan
The Service Center IHOP indicates the financial plan should contain a Rate Summary, Expense Summary, Capital Summary, and Financial Summary. Once the annual required financial plan and operating budget are complete, they should be submitted, along with all related documentation, to the Office of Budget and Analysis for review and approval. Then, the new Service Center budget is loaded into the institutional budget system. Audit Services review of Utilities Business Services plan for FYs 2015 - 2020 indicates the plan complies with the Service Center IHOP.
Utilities Business Services  
Engagement Number: 2017-013

Cost Allocation Methodology
Service Center procedures stipulate that rates should be based on the actual cost of providing services. Rates may recover only the actual allowable expenses of service center operations and not include any profit. Billing rates must be uniformly applied and be designed to recover only the cost of operations with the service center being break-even over time. Sometimes a department will be able to apply one billing rate to cover its activities. In other cases, a number of billing rates will be required.

Utilities uses room data, square footage and use type, generated from the ARCHIBUS space survey software application to determine the allocation of costs. Room types in ARCHIBUS are grouped into twelve categories (e.g. Research Lab, General Use, Special Use, etc.) based on factors such as the intensity of services received. Utilities developed a multiplier for each group to adjust the allocation per square foot in an effort to consider differences in utility use by type of space. Once room and total costs are calculated, a percentage for each entity is calculated and used by Finance as the basis to budget allocations and then distribute the actual shared service cost each month.

Audit Services interviews with Utilities personnel indicated the multipliers were developed approximately 10 years ago and have not been reviewed for continued relevance. Additionally, the methodology for developing the modifiers is undocumented. Our high level testing of the allocations indicated the methodology appears to be functioning as intended.

**Recommendation 2017-013-01-RM:**  
The Vice President, Business Operations and Facilities, should ensure the multipliers used to adjust the cost per square foot are reviewed, revised as applicable, and documented based on changes to the institution during the last decade.

**Management’s Response:**  
Business Operations and Facilities (BOF) will adopt procedures to validate multipliers for utility usage on a bi-annual basis. The utility multiplier is used during service center and budget preparation which this year is scheduled to be complete by the middle of March 2017, so we will have the validation and any required changes complete and vetted prior to the preparation of the FY 2019 budget.

**Implementation Date:** December 31, 2017

Meter Readings and Utility Company Invoices
Service center procedure general guidelines articulate that Service Centers are responsible for initiating bills for the goods and services they provide or sell to others. Service Center billings to departments should be done in a manner acceptable to the State of Texas Controller’s office (e.g., automated journal entries).

Monthly, Utilities Engineering reads campus meters and Utilities Business Services submits the readings to “EnergyCAP” utility bill and energy management software system for billing. Upon receipt of the EnergyCAP bills, automated journal entries are posted to charge the applicable
Utilities Business Services  
Engagement Number: 2017-013

departments. Audit Services tied a random sample of five EnergyCAP bills to the General Ledger to ensure accurate posting of the transaction. No exceptions noted.

Additionally, utility companies (e.g., City of Galveston, Texas Gas, etc.) send invoices to Utilities Business Services. One Utilities Business Services employee both receives and creates the payment vouchers to the utility companies. This represents a lack of segregation of duties as one person should not handle multiple parts of the process to pay invoices. Audit Services reviewed the supporting documentation for a random sample of five utility company invoices and tied the amounts to the General Ledger to the transactions, noting they were appropriate and accurate.

**Recommendation 2017-013-02-PL:**
The Associate Vice President, Utility and Fleet Operations, should explore the possibility of separating the receipt and payment voucher creation process for utility company invoices.

**Management’s Response:**
The Associate Vice President, Utility and Fleet Operations will identifying the existing resources that will insure the segregation of duties associated with the Utility procurement to pay process.

**Implementation Date:** June 1, 2017

**Conclusion**
Overall, Utilities Business Services is in compliance with institutional service center policies and procedures. Opportunities for improvement were noted in the cost allocation methodology and ensuring the process for the receipt and payment voucher creation is properly segregated.

We greatly appreciate the assistance provided by Utilities Business Services staff and hope that the information presented in our report is beneficial.

Kimberly K. Hagara, CPA, CIA, CISA, CRMA
Vice President, Audit Services