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ETHICS AND ACCOUNTABILITY

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Avoiding Scandal
& Headlines

Sustainability & Energy:
2009 Thought Leaders
Report, Part 1

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ETHICS AND ACCOUNTABILITY

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Ethics in Practice

By E. Lander Medlin

Some are uncomfortable with the thought that ethics does not consist of an absolute set of principles. Nonetheless, we can develop and utilize a reasonable set of guidelines for ethical behavior and action in the workplace.

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Accountability: Stepping Stones to Success

By Darcy Loy

As facilities leaders we need to take ownership and strive to implement accountability in all levels of our organizations. It's a daunting task, but with precise planning and implementation it has the potential to be successful.

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Avoiding Scandal and Headlines with Ethics and Accountability

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The implementation of best business practices and proper financial controls allow an organization to watch for the warning signs of inappropriate behavior and quickly identify wrongdoing and establish accountability if it does occur.

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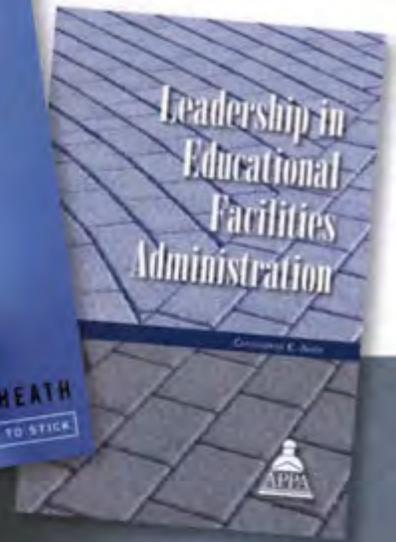
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Senior administration at New Mexico State University (NMSU) called for a complete review of the Office of Facilities and Services (OFS) in the spring of 2007. This comprehensive undertaking ranged from organizational structure to business practices to core operating procedures, and provided an opportunity to insure the existence of sound business practices and accounting controls.

We have heard it said that locks only serve to keep the honest people out, and it can be argued that a dishonest and unethical employee will find a way to commit theft or fraud regardless of the controls that are in place. However, the implementation of best business practices and proper financial controls allow the organization to watch for the warning signs of inappropriate behavior and to quickly identify wrongdoing and establish accountability if it does occur.

In addition, ethical leadership and accountability play a significant role in eroding or eliminating that pervasive "sense of entitlement" that unfortunately seems to lurk within every organization. As the leaders of our organizations, it is our responsibility to set the tone for ethics and accountability.

By Glen Haubold and Angela Throneberry

THE NMSU APPROACH

The establishment of organizational accountability requires that the finance and facilities folks work with each other instead of against each other. Overcoming the inherent distrust between the two disciplines is challenging but necessary for success.

The effort to streamline the business practices of the facilities organization at NMSU was led by Angela Throneberry, the associate vice president for business, finance and human resources, and Glen Haubold, the assistant vice-president for facilities and services.

Angela was responsible for assuring that financial accounting and management controls were established. She has direct oversight responsibility for the Controller's Office, Auxiliary Services, Administrative Data Management, and Financial Systems Administration. She has been with NMSU for over 18 years, during which time she has served in a series of positions for Auxiliary Services, Financial Operations, and Athletics.

Glen Haubold joined NMSU in 2008 as executive director of operations and was promoted to assistant vice president shortly afterwards. Glen was previously with the University of North Texas and has over 30 years of management experience in a variety of institutions.

Multiple disciplines were blended in a marriage of finance, management, maintenance, and leadership. Throughout the process, the accountants and the engineers came to appreciate the perspective of one another while taking a holistic, organizational view that facilitated the necessary culture change.

TARGETED AREAS

Procedures, financial controls and reports, and leadership are the three major components that "set the tone" for an effective, accountable, and ethical organization. Procedures must be formally documented instead of passed down verbally on the premise that "we've always done it this way." Meaningful management reports should be developed and shared across the organization. Finally, upper management must assert leadership and challenge the status quo if the organization is to be successful.

PROCEDURES

OFS was relocated under the senior vice-president for business, finance and human resources and an organizational structure with clear functions was established. Separation of authority was spread across departmental divisions for Operations, Project Development and Engineering, and Administration.

An initial significant observation was that the department needed a formal, comprehensive procedures manual. Although their efforts were generally well-intentioned, in the absence of clear guidelines the operating personnel

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The establishment of organizational accountability requires that the finance and facilities folks work with each other instead of against each other.

tended towards their own interpretations. To ensure that everyone was aware of the changes in methodology, regular briefings were held with staff during the development of a procedures manual and as procedures were added and revised.

Using *Sawyer's Internal Auditing 5th Edition* reference, guidelines were developed to be used as the framework of the OFS Procedures Manual:

- Policies should be clearly stated in writing, systematically organized, and properly approved.
- Policies should be designed to promote the conduct of authorized activities in an effective, efficient, and economical manner and to provide a satisfactory degree of assurance that the resources of the enterprise are suitably safeguarded.
- Policies should be systematically communicated to all officials and appropriate employees of the organization.
- Policies must conform to applicable laws and regulations, and they should be consistent with objectives and general policies prescribed at higher levels.
- To reduce the possibility of fraud and error, procedures should be coordinated so that one employee's work is automatically checked by another who is independently performing separate prescribed duties. In determining the extent to which automatic internal checks should be built into the system of control, such factors as degree of risk, cost of preventive procedures, availability of personnel, operational impact, and feasibility should be considered.
- Policies and Procedures should not be overlapping, conflicting, or duplicative.
- Policies and Procedures should be periodically reviewed, revised when circumstances change, and/or improved as necessary (adapted by NMSU Office of Audit Services, Sawyers et al. 2003, 83-84).

ACCOUNTING CONTROLS AND MANAGEMENT REPORTING

With the assistance of the NMSU business and accounting staff, risk management and risk assessment processes were conducted to identify absent or weak internal controls in areas of the operation and were used to establish a priority list allowing the focus of improvement in the most critical areas.

The organizational internal controls can be classified into five interrelated components as identified by the Committee of Sponsoring Organizations of the Treadway Commission (COSO):

1. Control Environment – The overall control tone of the organization including the establishment and enforcement of policies, procedures, standards and processes by management.
2. Risk Assessment – The process used to identify, measure, evaluate, and prioritize risks that may affect an organization's ability to achieve established objectives.
3. Control Activities – The policies and procedures established to assist in accomplishing objectives and to mitigate risks.
4. Information & Communication – Provides for the identifica-

tion, establishment and delivery of information and data to assist in accomplishing objectives which includes systems used to develop such information.

5. Monitoring – The process of assessing the quality and effectiveness of the established internal controls.

The organizational structure and leadership of the management team established a strong internal control foundation and provided

the desired "tone at the top." To improve the information and communication component of the internal control process, a "home-grown" database system was replaced with an enterprise work order solution and that allowed for identified information to be easily captured and distributed within the department and to the rest of the campus. These visible changes demonstrated the university's commitment to accountability and ethics while opening the organization's operational doors to the rest of the campus. They also served as the framework for the development and implementation of remaining internal controls and actions.

LEADERSHIP AND ETHICS

We have more influence than we realize as the leaders of our organizations. The integrity and ethical values of management establish the boundaries of acceptable behavior for staff. If upper management takes liberties with rules, procedures, and ethics, the staff can hardly be expected to do otherwise. At NMSU OFS, we travel on "actual receipts" rather than "per diem," religiously record our time away from campus, refrain from using office printers for personal use, and pay our own way when we go to lunch with vendors. As with any organization, we periodically receive reports of improper behaviors, and not surprisingly, we have seen an increase in these because the staff knows that each one will be investigated fairly and transparently. If you want to develop an ethical and accountable organization, you have to *walk the talk*.

QUESTIONS TO ASK OF YOUR FACILITIES ORGANIZATION

These questions should be asked about your organization, because gaps in any of these areas can lead to difficulties later:

Does your organization have written procedures that cover the following:

- Procurement of supplies through the warehouse and the procurement system?
- Regular inventories of small tools and shop stock?
- Procurement card, fuel card, and petty cash purchases?
- Intra- and inter-departmental use of equipment?
- Job estimation and planning?
- Operation of the Work Order System including defined administrative and security roles? A written procedure for adjustments?
- The use of cell phones and the operation of vehicles?
- Conflict of interest and outside employment?

- Are frequent, documented, training and review sessions conducted?
- Are management and supervisor reports appropriately distributed and employees properly trained on how to use the information?
- Is everyone clear about timekeeping and how travel, training, and "shop time" are calculated on work orders and billed?
- Is our organization consistent with how projects funded through state appropriations and with research grants are billed for work?
- Do our staff and customers understand what constitutes billable and non-billable work? Do we have a published schedule of services and rates?
- Are markups and shop labor rates developed in accordance with Office of Management and Budget A21 Guidelines and periodically reviewed by the appropriate central administrative unit?
- Do we have clear procedures about callouts, scheduled overtime, and overtime approvals? Is there a method in place to conduct spot checks of hours worked?
- Are there guidelines in place regarding vendor relations?

SUMMARY

There is an old cartoon about the 6 phases of a project that ends with the *search for the guilty* and *punishment of the innocent*.

When financial controls are lacking, this is exactly what can happen. With adequate management reporting, metrics can be established. Good performance can be rewarded and deviations corrected before major problems develop.

Well-documented written procedures, coupled with frequent review and discussion with management, staff, and supervisors, insure that every employee understands the expectations, rules, and parameters of their environment and their employment.

While controls and procedures are necessary to the efficient operation of any business enterprise, study after study has determined that the most important component of the success of any organization is leadership. An ethical, value-based culture can be created when people trust their leadership to do the right thing.

THREE YEARS LATER

It would be a storybook ending if we could write that the NMSU Office of Facilities and Services won an APPA Award for Excellence for these accomplishments. We cannot, of course, at least not yet, and we use the word "yet" because we use the criteria for the award as our guide to continuous improvement. What is different in our organization today is that the engineers and the operations staff realize the need for financial controls; instead of avoiding the accountants and the auditors, they ask for their advice. In addition, the accountants have an appreciation

for the challenges of the people who keep the lights on, the water flowing, and the restrooms clean, and when financial controls begin to impede the operations, the accountants and the engineers work together to find a solution that mitigates risk and builds accountability. 

NOTES

I. Sawyer, Lawrence B., Mortimer A. Dittenhofer, James H. Scheiner, Anne Graham, Paul Makosz. *Sawyer's Internal Auditing, 5th Edition*. 2003. Altamonte Springs, FL: The Institute of Internal Auditors.

Angela Throneberry is the associate vice president of business, finance, and human resources at New Mexico State University in Las Cruces, NM; she may be reached at athroneb@nmsu.edu. Glen Haubold is the assistant vice president in the Office of Facilities and Services at NMSU and may be contacted at glaubold@nmsu.edu. This is their first article for *Facilities Manager*. Glen and Angela will be presenting "The Accountant and the Engineer: Initiating Culture Change in Facilities Management" at the annual convention of the National Association of College and University Business Officers in July.

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