



WASHOE COUNTY

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CM/ACM DC
Finance N/A
DA N/A
Risk Mgt. N/A
HR N/A
Other N/A

STAFF REPORT

BOARD MEETING DATE: January 13, 2009

DATE: December 24, 2008
TO: Board of County Commissioners
FROM: Bill Mikawa, Manager, Internal Audit
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THROUGH: Katy Simon, County Manager

SUBJECT: Acknowledge Receipt of Contracted Services Audit Report from the Internal Audit Division (All Commission Districts).

SUMMARY

The purpose of this audit was to review contracted services provided to the County to determine if they were administered efficiently and cost effectively. Specifically, we reviewed the controls to ensure processes for selecting and monitoring contractors were in place and that payments to contractors were made according to the terms of the contract.

The results of this review indicated:

- Janitorial contracts were administered under an unsupported assumption. A large number of janitorial contracts were being administered under the belief that individual contracts for County owned/occupied buildings allowed more contractors to bid and receive contracts. The review of active contracts indicated that one contractor had 43 of 63 contracts (68%) totaling \$946,111 and a second contractor had 7 contracts (11%) totaling \$287,780. The remaining 13 contracts were distributed to 6 contractors (3 of these had only 1 contract apiece) for a total of \$102,298.
- Twenty-three of the 63 active janitorial contracts (36%) were renewed by change order rather than by purchase requisition and bid. In other words, when a contract reached the end of the contractual period, it was often renewed for an additional time period via an email from the contract administrator to the Purchasing Department. This was different than a multi-year contract that specified several years of contractual service with a dollar amount identified for each year. These could be renewed by email for each of the specified years without going through the SAP Purchasing module workflow approval process each time once the total contract specifying the number of years and dollar amounts were initially approved.

Purchasing established a new policy effective July 1, 2008 requiring all requests for change orders in excess of \$1,000 be submitted as new purchase requisitions

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to ensure that they go through the departments workflow and approval process. These new requisitions, once approved, would be added to the existing purchase order. E-mail requests for change orders of less than \$1,000 and requests to add a new fiscal year amount to an existing multi-year contract are still allowable. This policy was instituted with the concurrence of WINnet and the Comptroller's Office.

- Many of the current purchase orders for janitorial services were designated as multi-year contracts but did not specify the number of years inclusive in the contract and the specific dollar cost for each year of service. In effect, these were not true multi-year contracts. Using change orders via emails to renew these contracts violated the internal control features of the SAP Purchasing module workflow approval process.

County Priority supported by this item: Government Efficiency and Financial Stability

PREVIOUS ACTION

No previous action has been taken on this Board item

BACKGROUND

The County contracts for many services that can be provided at a lower cost than what the County could provide in-house or for services the County cannot readily provide without a large infusion of capital or start-up costs. For example, armored car service in-house would be impractical because of the cost of equipment and qualified staff for services not required on a full-time basis.

The County made the decision to contract for janitorial services several years ago after determining that the cost for contracting was less than operating the function in-house. Other contracted services such as external auditing of the County's financial reports are required by statute that this service be provided independently of the County.

Other contracts services administered by the County included (not inclusive):

Window washing	Carpet cleaning	Painting	Pest control	Security
Fire suppression	Elevator Maint.	Appraisals	Banking	Answering svc
Fire Ext. Maint.	Health Ins. Admin.	Insurance	Investments	Lobbying
Snow removal	Alarm monitoring	Title search	Medical exam	Secretarial svc
Lab testing	Printing	Employ. Svc	Shelter ops.	Aerial photo
Pesticide abatement	Legal services	Wellness	Data storage	Consulting
Software support	Golf course ops	Repairs	Rentals	Prevent. maint

Contracts are administered by the department requesting the service. This requires a scope of work to be determined and agreed upon by both the department administering the contract and the contractor. Prices are negotiated for the service and a contract is entered into with full faith by both parties. All of the contracts reviewed also included insurance requirements and basis for termination. Some, but not all, included audit provisions.

FISCAL IMPACT

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

RECOMMENDATION

It is recommended that the Board of County Commissioners acknowledge receipt of this audit report of contracted services from the Internal Audit Division.

POSSIBLE MOTION

Should the Board of County Commissioners acknowledge receipt of this audit report, a possible motion would be:

Move to acknowledge receipt of the Contracted Services Audit report from the Internal Audit Division.

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Attachment

CONTRACTED SERVICES

INTERNAL AUDIT REPORT

December 24, 2008

Executive Summary

Best Practices

1. Contracted services were monitored effectively and corrective actions were taken when required.
2. Payments were made to contractors according to the terms of the contract.
3. Contracted services were generally cost effective when compared to providing the services in-house.

Observations

1. There were 63 current purchase orders for day-to-day janitorial cleaning of which one contractor had 43 of these contracts (68%).
2. Twenty-three (36%) of the 63 current janitorial purchase orders were renewed by change order (authorized by email) rather than by purchase requisition.
3. The requirement that multi-year purchase orders include the total number of years inclusive in the contract and the cost for each year was not being followed.

Observations & Recommendations

1. Contracted Services

The County contracts for various services including janitorial, security, appraisals, external audits, elevator maintenance, armored car pickup, answering service, alarm system monitoring, banking, health insurance administration, insurance agreements, etc. These contracted services are provided at a lower cost than what the County could provide in-house or are for services that the County cannot readily provide. Our audit focus was primarily on the cost for administering these contracts.

- a. Janitorial services generated a large volume of purchase orders and individual contracts. There were 388 purchase orders issued for janitorial services in the County since FY 03-04. This included day-to-day cleaning, window washing, carpet shampooing, sanitizing, and pest control.

Day-to-day cleaning totaled 352 purchase orders. These contracts varied from a few days to several years. Many included change orders extending the contract period or for other adjustments. The reason given for so many individual purchase orders was to distribute the work among more contractors. We found, however, that one contractor received 190 of these contracts (53.9%) and a second contractor received 55 contracts (15.6%).

We reviewed 63 currently open purchase orders for day-to-day cleaning. One contractor received 43 of these contracts for \$946,111. The next largest number of contracts (7) went to a second contractor totaling \$287,780. The remaining 13 contracts were distributed to 6 contractors for a total of \$102,298. The cost of administratively processing purchase order transactions from inception through a purchase requisition to bidding, and issuing a purchase order was conservatively estimated at approximately \$200 per requisition.

Twenty-three (36%) of the 63 currently open purchase orders reviewed were renewed by change order. One additional purchase order was a multi-year contract specifically established for 3 years. This was renewed by email each year. The remaining 39 contracts required bids; six of these required formal bids and went to the Board of County Commissioners for approval. The contractor who received the majority of the purchase orders received 23 of the new bids and 19 of the contracts by change order.

- b. None of the change orders were supported by a purchase requisition; in almost every case, the change order was authorized by email. Contract administrators may extend the contract period for an existing multi-year contract without a purchase requisition as long as the total dollar amount and the total time period of the contract was previously approved. Many of these purchase orders that were renewed by email were designated as multi-year

contracts but lacked approval for the additional years or dollar amounts of the contract, therefore, a purchase requisition should have been required. A new requisition was required for audit trail purposes when a department wanted to renew an existing contract by increasing the period of service and the amount of the contract for the additional period.

Recommendation: The number of individual purchase orders for janitorial services should be reduced by combining contracts that are coming due at the same time and bidding these out in a package. Multi-year contracts should specify the total number of years included in the contract and the specific cost for each year. These should be the only contracts renewed by change order. All other contracts should require a purchase requisition.

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