



Office of the City Auditor

Audit of Selected Service Contracts

Report Date: April 10, 2015

Office of the City Auditor
2401 Courthouse Drive, Room 344
Virginia Beach, Virginia 23456
757.385.5870

"Promoting Accountability and Integrity in City Operations"



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

Lyndon Remias, CPA, CIA, CRMA

City Auditor

Gretchen Hudome, CIA, CRMA

Deputy City Auditor

www.vbgov.com/cityauditor

Office of the City Auditor

2401 Courthouse Drive, Room 344

Virginia Beach, VA 23456

Telephone: 757.385.5870

Fax: 757.385.5875

Fraud, Waste, and Abuse Hotline 757.468.3330



Office of the City Auditor
Transmittal Letter



Date: April 10, 2015
To: James K. Spore, City Manager
Subject: Audit of Selected Service Contracts

I am pleased to present the report of our Audit of Selected Service Contracts. Our audit focused on the operational processes, procedures, and controls in place to properly administer and monitor selected service contracts.

Overall, we found the processes and controls governing administration and monitoring of the selected contracts to be sufficient; but management can enhance these processes and strengthen internal controls and accountability by implementing our recommendations related to monitoring contracted services and payment for services.

Findings considered to be of insignificant risk have been discussed with management. The results of this audit will be provided to City Council and the City's Audit Committee.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the staff of the areas reviewed for their courteous and prompt assistance during our review.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA, CRMA
City Auditor

- c: City Council Members
Audit Committee Members
Phil Davenport, Director, Public Works
Michael Kalvort, Director, Parks and Recreation
Jim Ricketts, Director, Convention and Visitors Bureau
Lynn Clements, Director, Museums and Historic Resources



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Purpose

The purpose of this audit was to ensure adequate controls and processes are in place to properly administer and monitor compliance with contract and payment terms for selected contracts for services.

Scope and Objectives

The objectives of our audit were:

- To identify and analyze the City's service contracts and spending based on information provided through the City's General Ledger (InSITE); and,
- To ensure compliance with contract and payment terms for selected contracts.

The audit covers the period of July 1, 2013 through October 31, 2014. For purposes of this audit, service contracts include agreements and contracts for services where payments are charged to "603" (Contractual Services) object codes, except for payments to government entities, construction, architect and engineering services and other service types deemed not to meet the definition of "service" for the purpose of this audit.

We looked at operational policies and procedures in effect at the time of our audit and performed multi-year analytics to determine the contracts to review.

Methodology

To accomplish our objectives, we performed the following procedures:

- Gained an understanding of the types of services the City receives and the policies and procedures for procurement, monitoring, and payment for the purchase of services.
- Obtained an extract of payments for services from InSITE.
- Performed analytics to determine contracts to select for further testing.
- For each contract selected:
 - Obtained copies of contract(s).
 - Met with responsible department(s).
 - Documented contract administration and payment processes.
 - Determined attributes to test.
 - Selected a sample of invoices.
 - Performed test work.
 - Communicated results to management.



Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.



Background

The City routinely procures services from external parties (vendors) to support its operations. In FY14, the City spent approximately \$119,571,712¹ on contractual services, excluding housing assistance payments to landlords through the Housing Choice Voucher Program.

Contracts are awarded by the City's Purchasing Agent with input from the using agency. The using agency is then responsible for contract administration for the duration of the contract. The table below provides a list of a Contract Administrator responsibilities included in the City's Purchasing manual.

Table 1. Contract Administrator Responsibilities

- | |
|--|
| ▪ Ensure the vendor complies with each of the contract terms and conditions; |
| ▪ Obtain Purchasing's approval, via a change order, for ALL changes or modifications to the contract, in particular those changes which affect price, performance, time frames or scope of the work to be performed; |
| ▪ Ensure the vendor complies with all insurance, bonding, and licensing requirements; |
| ▪ Ensure the City receives the goods or services for which it contracted; |
| ▪ Stamp original invoice authorizing payment to the vendor. Submit the stamped vendor's original invoice to Finance/Accounts Payable; |
| ▪ Complete a Capital Asset Inventory System Add Document for all purchases of capital items. Submit the form to Finance/Capital Assets Inventory Control; |
| ▪ Ensure the vendor receives timely and accurate payment(s); |
| ▪ Document each occurrence of vendor nonperformance and contact Purchasing when vendor is in default of the contract; |
| ▪ For construction contracts and contracts for services, ensure that the contractor has submitted the documentation regarding the actual woman and minority-owned business participation efforts undertaken in connection with the contract; |
| ▪ Ensure funds are encumbered each fiscal year; |
| ▪ Evaluate the contract for renewal at least six (6) months in advance of the contract expiration date. |

SOURCE: City of Virginia Beach Purchasing Manual

We used analytics to identify high-risk areas associated with contract administration and vendor payments as they relate to service contracts. For purposes of this audit, service contracts include agreements and contracts for services where payments are charged to "603" (Contractual Services) object codes. We then selected a sample of higher risk and/or higher dollar contracts for further review related to compliance with contract and payment terms.

¹ Amount is based on extract of InSITE invoice data provided by ComIT on July 8, 2014.



Office of the City Auditor Audit of Selected Service Contracts

The contracts selected for review were ABM Janitorial Services, All Pro Landscape Services; Asphalt Roads & Materials Co., Inc.; and, Barker Campbell and Farley (BCF). The results of our reviews are included herein.



Findings and Recommendations

ABM Janitorial Services

Public Works/Building Maintenance

Public Works/Building Maintenance contracts with ABM Janitorial Services (ABM) and other vendors to provide janitorial and custodial services at various City facilities. At the time of our review, there were four contracts with ABM covering 24 locations. In FY14, the City made payments to ABM amounting to approximately \$1,088,457.



We reviewed the procedures and documentation for contract administration and payment processing associated with these contracts. We did not review the bid process associated with the procurement of these services. The scope of our review was the fiscal year ended June 30, 2014.

The results of our review and general observations specific to the ABM Janitorial Services contracts and the department's contract oversight, management and payment processes are as follows:

- Contract documentation is maintained onsite, and in good order.
- Contract workers sign in and out using standard, pre-printed Daily Reports. Some locations record multiple days on one report.
- Work performance is verified by inspectors.
- Inspections and monitoring visits are documented using facility-specific *Inspection Reports* and *Weekly Facility Visit Charts*. Facility visits, regardless of whether they are regular monitoring or formal inspections, are indicated by a check mark on the date of the visit.
- Invoices are reviewed and approved by the Custodial Services Manager or designee prior to payment.
- Amounts charged were in accordance with contract terms and verified as part of the invoice review process.
- Deductions for non-performance and/or understaffing were calculated correctly and communicated to the vendor.
- Payment vouchers sampled were properly coded and authorized.

Specific observations noted during our review of supporting documentation include:

- One instance where required staffing levels were not met and no deduction was processed resulting in an overpayment of approximately \$82.50 for June 2014.



- Male/female staffing requirements at some recreation centers were not always met. This requirement had been waived on a case by case basis, but the changes were not formally documented.

Overall, we found Building Maintenance's processes for administering and monitoring contracted custodial services contracts to be sufficient; however, we offer the following recommendations to strengthen internal controls and streamline processes. Building Maintenance should:

1. Tailor the Daily Report to meet facility requirements for staffing.
2. Add a review of facility Daily Reports to Inspection Reports to ensure staffing levels are reviewed regularly.
3. Document type of visit (i.e., monitoring or formal inspection) on *Weekly Facility Visit Charts*.
4. Ensure changes to contract requirements are documented in writing and communicated to all parties.



All Pro Landscape Services

Parks and Recreation/Landscape Management

Parks and Recreation/Landscape Management contracts with All Pro Landscape Services (All Pro) and other vendors to provide cyclical grounds maintenance at various locations throughout the City. At the time of our review, there were eight contracts with All Pro. In FY14, the City made payments to All Pro amounting to approximately \$153,998.



We reviewed Landscape Management's procedures and documentation for contract administration and payment processing associated with these contracts. We did not review the bid process associated with the procurement of these services. The scope of our review was the fiscal year ended June 30, 2014.

The results of our review and general observations specific to the All Pro Landscape Services contracts and the department's contract oversight, management and payment processes are as follows:

- Contract documentation is maintained onsite, and in good order.
- Completion of work is verified and documented by inspectors.
- Invoices are reviewed and approved by inspectors prior to payment.
- Amounts charged were in accordance with contract terms.
- Payment vouchers sampled were properly coded and authorized, except for the payment terms. All payment vouchers reviewed indicated payment terms were Net 30. Depending on the particular contract, payment terms were either 1%/20 Net 30 or 2%/20 Net 30.
- Standard invoice does not include payment terms.

Specific observations noted during our review of supporting documentation include:

- Available cash discounts were not taken on payments for work performed for four of the eight POs in effect at June 30, 2014 resulting in discounts lost of approximately \$1,578.
- Invoice number and/or the invoice date keyed incorrectly in InSITE² on five (5) of the 30 invoices reviewed. Keying errors can result in duplicate and/or improper payments.

² The Parks and Recreation Finance Unit is responsible for InSITE data entry.



Overall, we found the Landscape Management's processes for administering and monitoring cyclical grounds maintenance contracts to be sufficient; however, we offer the following recommendations to strengthen internal controls, streamline processes and maximize available cost savings. Landscape Management should:

1. Modify standard invoice to include payment terms.
2. Ensure encumbrance POs and payment vouchers reflect the appropriate payment terms.
3. Ensure InSITE data is reviewed for accuracy prior to validating.



Asphalt Roads & Materials Co., Inc

Public Works/Infrastructure Maintenance Contracts Bureau

Public Works contracts with Asphalt Roads & Materials Co., Inc. (Asphalt Roads) to provide asphalt, concrete profile, resurfacing, reconstruction and various maintenance and construction services. The City also contracts with Asphalt Roads to provide time and materials for various emergencies and clearing. At the time of our review, there were four service contracts with Asphalt Roads. In FY14, the City made payments to Asphalt Roads amounting to approximately \$17,752,561.



We reviewed the Public Works Infrastructure Maintenance Contracts Bureau procedures and supporting documentation for contract administration and payment processing associated with these contracts. We also reviewed the procedures and supporting documentation for the Public Works Contracts Office's role in approval and authorization of work orders, formal notifications and payments. We did not review the bid process associated with the procurement of these services. The scope of our review was the 15 month period ended October 31, 2014.

The results of our review and general observations specific to the Asphalt Roads contracts and your department's contract oversight, management and payment processes are as follows:

- Contract documentation is maintained onsite, and in good order.
- Completion of work is verified and documented by inspectors using a variety of standardized documents and automated forms.
- Inspector's work is periodically reviewed by Inspector Supervisor and/or the Inspections Coordinator.
- Load tickets are tracked by date, location, product and amount.
- Invoices are reviewed and approved by the inspectors prior to payment.
- Invoice quantities are reconciled to supporting documentation and discrepancies discussed with the inspector and/or the contractor.
- Mathematical accuracy of invoice charges is verified by the Infrastructure Maintenance Contracts Bureau and again by the Public Works Contracts Office prior to payment. The City's Payment Voucher is prepared two times as well.
- Formal notifications were properly executed, but reasons provided were vague.
- Amounts charged were in accordance with respective contract terms and contract pricing was verified prior to payment.
- Payment vouchers sampled were properly coded and authorized in accordance with department policy.



Specific observations noted during our review of supporting documentation for a randomly selected sample of 30 invoices include:

- Two instances where work commenced prior to full execution of the work order.
- Two instances where the inspector did not sign or initial the supporting documentation; and, one instance where the supporting documentation was signed but not dated by the inspector.
- One instance where the inspector approved the invoice, but did not provide documentation to support the charges.

Overall, we found the Public Works processes for administering and monitoring of contracts related to asphalt, concrete profile, resurfacing, reconstruction and various construction and maintenance services to be sufficient; however, we offer the following recommendations to strengthen internal controls, streamline processes and maximize available cost savings. Management should:

1. Modify *Notice to Proceed* portion of the workorder document to clearly indicate that work should not begin until the workorder is fully executed.
2. Ensure inspectors sign and date all supporting inspection reports, whether using preprinted forms or automated documents.
3. Ensure Daily Inspection Form(s) are reviewed and signed by the Inspector Supervisor.
4. Ensure reasons provided to justify changes to workorders (i.e., formal notifications) are descriptive as to the nature of the change.
5. Explore opportunities to eliminate duplication of effort and forms within the workorder and payment processes.



Barker Campbell and Farley (BCF)

Convention and Visitors Bureau and Department of Museums

The City contracts with BCF to provide advertising and public relations services to advertise and promote tourism, conventions, sports marketing and the Virginia Aquarium. In FY14, the City made payments to BCF amounting to approximately \$7,139,219.



FY14 Payments to BCF	
Convention and Visitors Bureau	\$6,762,083
Museums	377,136
Total Payments to BCF	\$7,139,219



We reviewed the Convention and Visitors Bureau's (CVB) and the Department of Museums' procedures and documentation for contract administration and payment processing associated with this contract. We did not review the procurement process associated with these services. The scope of our review was the fiscal year ended June 30, 2014.

The results of our review and general observations specific to the BCF contract and the departments' contract oversight, management and payment processes are as follows:

- Contract documentation is maintained onsite, and in good order.
- Annual media and advertising plan developed and updated, as necessary.
- Job estimates reviewed and approved by program manager and/or the contract administrator. Estimates are maintained until job completion by CVB and with other documentation supporting work requested and performed by Museums.
- Provision of services verified by appropriate program manager and/or the contract administrator.
- Amounts billed in advance of service provision (i.e., media buys, production costs, etc.) are matched to the job estimate.
- Invoices are reviewed and approved prior to payment.
- Documentation (i.e., receipts, affidavits, tear sheets, etc.) supporting charges are available upon request from BCF.
- Amounts charged were in accordance with contract terms and requested documentation sufficient to support the charge.
- Payment vouchers sampled were properly coded and authorized.



Overall, we found the departments' processes for administering and monitoring contracted advertising and public relations services to be sufficient; however, we offer the following recommendations to strengthen internal controls and streamline processes. Management should:

	<u>CVB</u>	<u>Museums</u>
1. Maintain job estimates with other documentation supporting work requested and performed. Estimates should be routinely compared to total costs for completed jobs.	■	
2. Monitor advance bill jobs through completion to ensure services associated with the advance bill are satisfactorily received.	■	■
3. Request and review supporting documentation for a selected sample of invoices received each billing cycle to ensure charges are made in accordance with contract terms.	■	■



Conclusion

Overall, we found the processes and controls governing administration and monitoring of the selected contracts to be sufficient; but management can enhance these processes and strengthen internal controls and accountability by implementing our recommendations related monitoring contracted services and payment for services.

Acknowledgements

We would like to thank the management and staff of Public Works/Building Maintenance, Parks and Recreation/Landscape Management, Public Works/Contracts, Public Works/Infrastructure Maintenance Contracts Bureau, Convention and Visitors Bureau and Department of Museums for their courteous and prompt assistance during our audit.