



Internal Audit Report

Facilities Services Contract Management

Report Number: 2017-01 | Report Date: March 10, 2017

Executive Summary

Audit Report No.: 2017-01

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WE AUDITED the Facilities Division's management controls over the management of service contracts.

AUDIT OBJECTIVE was to determine whether the Facilities Division has implemented effective contract management controls to ensure services received and payments made are in accordance with contract terms.

The audit examined management controls in place as of January 2015.

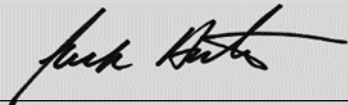
WHAT DID WE FIND?

Sound Transit outsources much of the services to maintain and repair agency-owned facilities. The Facilities Division, within the Operations Department, manages these service contracts, with an annual budget of \$8 million and 27 FTEs.

As of August 2016, the agency had 81 open and active facility service contracts, with a total budget of just over \$14 million. The contracts include janitorial, landscaping, elevator maintenance, HVAC maintenance, pest control and fire and life safety.

In general, there are two main components to these service contracts: scheduled work that is specifically defined and priced in the contract and on-call work which is authorized by a task order, using approved unit or hourly rates from the contract.

The audit concluded that management has implemented effective management controls to reasonably ensure compliance with contract terms with the exception of on-call facilities service invoices. The audit noted opportunities to improve controls.



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Background

At Sound Transit, contract management refers to the post-award management of contracts to ensure that contract deliverables are fulfilled by the vendor pursuant to the contract's terms and conditions. It also means the timely performance of the agency's responsibilities under the contract, including but not limited to invoice management and vendor payment.

A "project manager" (who may be the program manager) is assigned for every contract at the time of contract award. The project manager is accountable for performing the responsibilities of contract management, with the support and assistance of the contract specialist. Particular functions may be distributed among more than one person with the oversight of the project manager.

The Facilities Division manages the service contracts in support of agency owned facilities, with an annual budget of \$8 million and 27 FTEs. The contracts include janitorial, landscaping, elevator maintenance, HVAC maintenance, pest control and fire and life safety. In general, there are two main components to these service contracts:

- regular, scheduled work that is specifically defined and priced in the contract.
- on-call, unscheduled work authorized by a task order, in which approved unit or hourly pricing applies.

During the period January 2015 to August 2016, there were 120 open and active Facilities Division service contracts, with an award value of \$19 million. As of August 2016, 56 of those contracts were still open, with a total award value of nearly \$13 million.

	2014	2015	2016 *
# of Open Contracts	74	87	81
Open Contract Value	\$6,018,442	\$17,166,247	\$14,207,420
# of Payments	1,155	1,163	827
Total Payments	\$1,977,265	\$2,098,037	\$1,875,793

*As of 8/15/2016

Audit Objectives

To determine whether the Facilities Division has implemented effective contract management controls to ensure services received and payments made are in accordance with contract terms.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

After interviewing Facilities Division staff and reviewing related contract management processes and guidance utilized by the project managers, we determined to focus our efforts on

management controls review and approval of facility service contract invoices, as of January 2015.

To determine whether management controls were effective to ensure services received and payments made were in accordance with contract terms and conditions, we conducted the following procedures:

1. Interviewed a sample of Facilities Division staff and reviewed any related contract management processes and guidance utilized by the project managers to determine whether contract management controls are adequate to address risks and issues identified in previous audits.
2. Selected a sample of 40 invoices, from 17 vendors, totaling \$481,059, from the period January 2015-August 2016. The sample was judgmentally selected using criteria such as type of vendor, project manager, total amount of contract, amount of invoice, and type of service (scheduled and on-call) and verified the following:
 - a. The services ordered and received agreed with terms of the purchase order/contract/task order.
 - b. The prices billed and/or discount received were in accordance with the purchase order/contract/task order.
 - c. The services were received and verified prior to payment.
 - d. The project manager reviewed and approved the invoice documentation
 - e. The amounts on the invoice were calculated accurately.
 - f. There was appropriate segregation of duties or additional oversight to prevent collusion with the vendor.

Conclusion

Management has implemented effective management controls to reasonably ensure compliance with contract terms for all but on-call facilities service contracts. See Finding 1.

Findings and Recommendations

1. Management Controls Over On-Call Invoice Review Should Be Strengthened.

The majority of the Facilities Divisions service contracts utilize the same contract template. The contracts require that the vendor should submit an itemized invoice, accompanied by attachments such as a copy of the work order and receipts for any parts/materials billed to Sound Transit. The contracts also provide an example of an invoice and details to be included, specifically, location where work was performed, number of hours worked, employee name providing service, date worked, time completed, contract/hourly rate and extended amount.

The contracts also include an approved price list for both regular, scheduled services, as well as on-call services. The on-call services are requested via a task order, sometimes referred to as a work order, which authorizes the vendor to do certain work for a not-to-exceed amount. The task order indicates that the amount invoiced should not exceed the amount shown on the task order, and shall reflect itemized pricing at unit prices in accordance with the contract.

The audit determined that 14 (70%) of 20 on-call invoices reviewed did not enforce contract provisions requiring vendors to only bill for actual hours worked and costs incurred. For those invoices, vendors billed the full not-to-exceed amounts as shown on cost of work proposals which are estimated and not actual costs. Further, although management confirmed - prior to the receipt of the invoices - that task order services were received, the invoices lacked the required information to validate the accuracy and eligibility of costs billed. Despite the deficient support documentation, management accepted and approved the invoices for payment. This resulted in \$95,433 of questionable costs and \$8,497 of ineligible costs.

	# of Invoices	Total Invoice Amount	Questionable ¹ Amount	Ineligible Amount
No Exception Noted	6	\$35,340	\$0	\$0
Not Itemized and Ineligible Costs	2	\$35,020	\$28,081	\$6,939
Unsupported Costs and Ineligible Costs	1	\$10,862	\$9,304	\$1,558
Not Itemized and Unsupported Costs	7	\$49,522	\$49,522	\$0
Not Itemized	2	\$14,820	\$5,516	\$0
Unsupported Costs	2	\$3,010	\$3,010	\$0
On-Call Service Invoices	20	\$148,574	\$95,433	\$8,497

Recommendations:

We recommend the Facilities Division:

1. Obtain credits for ineligible costs identified in this audit.
2. Review prior invoices for additional noncompliant costs and recover as appropriate.

¹ No document support is available as certain contractors were reluctant to provide further support for questioned costs. The request for additional information was made well within the contracts' audit and access to records provision.

3. Increase oversight for on-call facilities service invoices to ensure Sound Transit is billed in compliance with contract requirements.

The following specific procedure are suggested for management consideration:

- Reject the invoice with noncompliant support documentation with contract requirements.
- Utilize a check list of significant contract requirements to streamline a review/approval process.

Management Response

1. Obtain credits for ineligible costs identified in this audit.

Management Response:

We are studying this recommendation.

- a. The audit identified \$8,497 as ineligible costs. The majority of these costs were for services provided by Northwest Asphalt. Northwest Asphalt charged \$6,554 under a change order for additional work which was reviewed and approved by Procurement and Contracts. Management believes these costs were reasonable and justified. However, contract documentation for this change was not located in the contract records.
- b. An additional \$1,558 was billed by Metro Painting but did not provide itemized supporting documentation for materials and additional labor to allow verification of compliance with contract terms. Metro Painting is no longer an active ST Facilities contractor.

2. Review prior invoices for additional noncompliant costs and recover as appropriate.

Management Response:

We are studying this recommendation. Management assessed the unsupported costs incurred were fair and reasonable, however, detailed itemized documentation was not received. Management will review and may require additional resources and possibly direct support in partnership with Procurement and Internal Audit to conduct this effort.

3. Increase oversight for on-call facilities service invoices to ensure Sound Transit is billed in compliance with contract requirements.

The following specific procedure are suggested for management consideration:

- Reject the invoice with noncompliant support documentation with contract requirements.
- Utilize a check list of significant contract requirements to streamline a review/approval process.

Management Response:

We concur with this recommendation. The audit found Management has implemented effective management controls to reasonably ensure compliance with contract terms for all but on-call work provided under facilities service contracts.

- a. We are evaluating our processes and training for invoice approval associated with on-call service agreement work. Processes will be evaluated and may be refined to streamline review/approval process.
- b. Management has instructed staff to reject any invoice with noncompliant support documentation with contract requirements.

- c. In addition, we will work with Procurement and Contracts and the vendor community to ensure that contract terms are reasonable and well understood by the vendor.