



A Report  
to the  
Board of  
Supervisors

*Maricopa County  
Internal Audit  
Department*

**Ross L. Tate**  
County Auditor

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# Countywide Contracts

*Invoices Do Not Receive Adequate  
Scrutiny*

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September ■ 2008

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**The mission of Maricopa County** is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

**The mission of the Internal Audit Department** is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

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September 8, 2008

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We have completed our Fiscal Year 2007-08 Countywide Contracts Review. This audit was performed in accordance with the annual audit plan approved by the Board of Supervisors. The specific contracts and intergovernmental agreements reviewed were selected through a formal risk-assessment process.

Highlights of this report include:

- Too often, contract invoices are not adequately reviewed prior to approval
- Many invoice charges did not have sufficient support
- Numerous invoices violated contract terms and included unallowable charges

This report contains an executive summary, specific information on the contracts and intergovernmental agreements reviewed, and the agencies' responses to our recommendations. We have reviewed this information with the Directors and Elected Officials and appreciate the excellent cooperation provided by management and staff. If you have any questions, or wish to discuss the information presented in this report, please contact Richard Chard at 602 506-7539.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate  
County Auditor

# Executive Summary

## Detailed Findings (Page 6)

We examined 10 contracts that included 16 vendors and 2 intergovernmental agreements. Five contracts either (1) lacked supporting documentation, (2) violated contract terms, and/or (3) lacked sufficient County oversight. In numerous cases, review of vendor invoices was not adequate to prevent payment of inappropriate charges. We recommend that contract oversight be improved and that questioned costs be reimbursed to the County. A summary of our findings is shown below, with details on the following pages.

Contract	Vendor	Questioned Costs	Issues
Outside Consulting, Auditing, and Accounting Services (Page 6)	Deloitte Consulting	Yes	Invoices not adequately reviewed, various unsupported, and/or unallowed charges
	Weidner Inc.	No	
	Mercer Health & Benefits	No	
Public Relations Services (Page 10)	Topete/Stonefield (Ryan White)	Yes	Invoices not adequately reviewed, work done with no "scope of work" document; incorrect markup; invoice paid twice
	Godec, Randall, and Associates	Yes	
	ACS/Conaid	Yes	
	Riester-Robb	No	
	Barclay	No	
	Topete/Stonefield (NACo)	No	
Pharmacy Services (Page 16)	Diamond Pharmacy	Yes	Inadequate reconciliations; vendor not crediting all return/not shipped items; missing contract terms
Library District/Various Cities (IGA) (Page 19)	Participants in Reciprocal Borrowing Program	Yes	County departments are not taking advantage of electronic subscriptions; insufficient recordkeeping
Bulk Fuels, Purchase and Delivery (Page 21)	Union Distributing	No	Only performing inventories annually; not verifying delivery quantities
Waste Tire Recycling and Final Disposal (Page 23)	Crumb Rubber Manufacturers	No	No issues
Administrative Passenger Vehicles (Page 24)	Courtesy Chevrolet	No	No issues
	Five Star Ford	No	
Sanitation Services (Page 25)	Waste Management	No	No issues
MCDOT/City of Goodyear Cotton Lane Bridge (IGA) (Page 26)	City of Goodyear	No	No issues
Insurance Broker Services (Page 27)	Marsh USA Inc.	No	No issues
	Arthur Gallagher & Associates	No	No issues

# Introduction

Maricopa County spends millions of dollars each year on nearly 2,800 active contracts. Each year, Internal Audit audits a number of vendor contracts. In our current review, we found that some County agencies did not exercise adequate control over contract payments and paid costs that were not allowed by the contract terms.

Materials Management (MM) administers the systems and provides guidelines for County departments to establish contracts with external vendors. With good procedures, departments can use contractors to perform important functions within legal, policy and budgetary requirements.

In the County's Procurement Code, contracts are classified by the following categories:

1. Article 5 is for the design, construction, and remodel of County facilities (approximately 800 contracts are in this category)
2. Article 3 contracts are for the purchase of all other good and services (nearly 2,000 contracts are in this category)



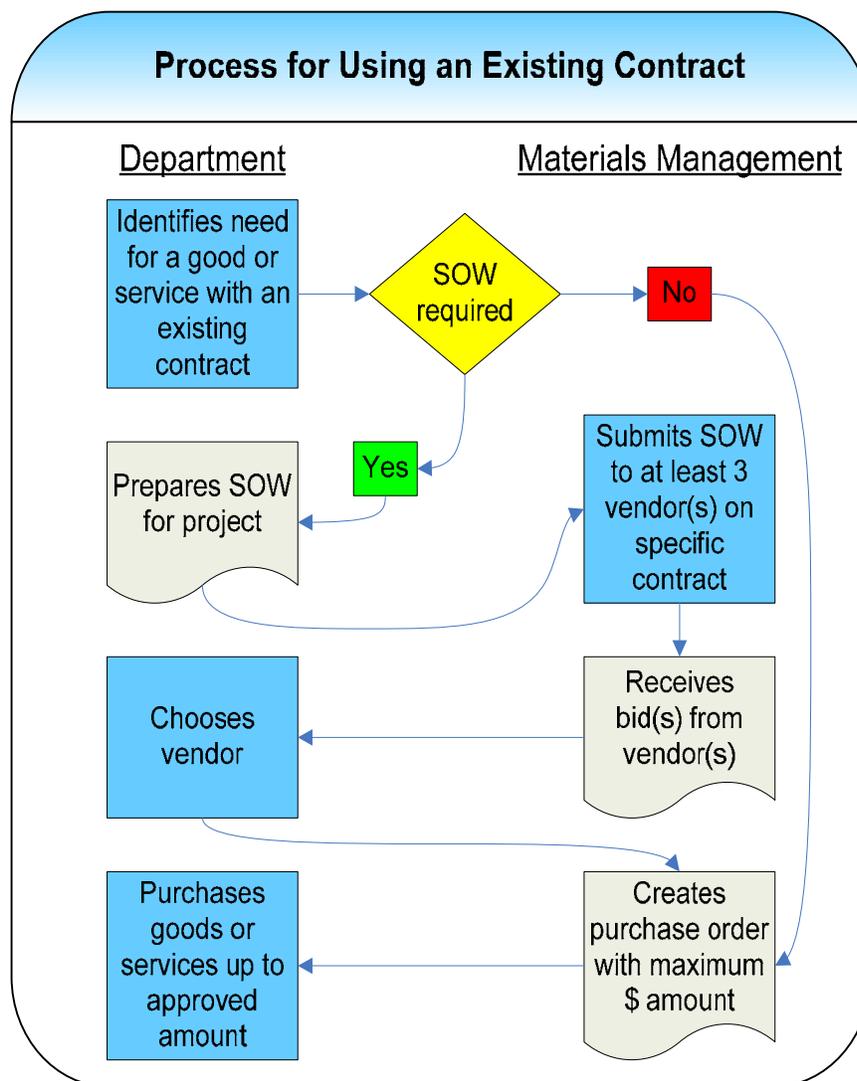
**Maricopa County Spends Millions of Dollars  
Each Year on Nearly 2,800 Contracts**

## Requirements

The Maricopa County Procurement Code is the County's version of the State Procurement Code, authorized under Arizona Revised Statutes (ARS). These procurement codes are designed to encourage competition and promote overall economy in purchasing. The County's Procurement Code, as well as the terms of contracts, defines MM and agency responsibilities in creating and administering contracts. These responsibilities include retaining invoices, reviewing supporting documentation, and preparing scope of work (SOW) documents for certain projects. General MM and agency requirements are outlined on the following page.

MM is responsible for handling the bidding process for all contracts it oversees. The Procurement Code outlines specific responsibilities to ensure compliance with state laws. Once a contract has been established, there are two different processes that an agency must follow depending on the type of contract:

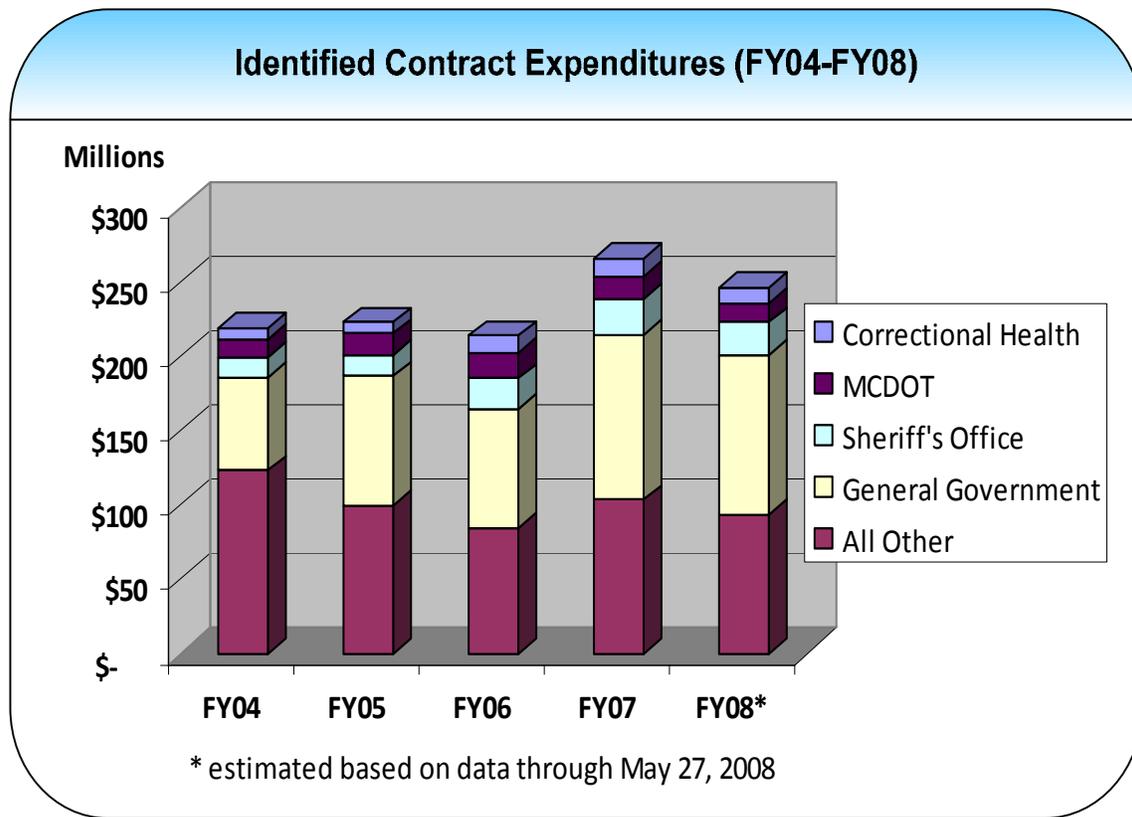
1. If the contract is for a specific good or service that is outlined in the contract (used when the exact good or service required is known), the agency can request a purchase order. A SOW document is not required. These types of contracts typically outline specific prices. MM will then issue the purchase order, allowing the agency to begin using the good or service.
2. If the contract is a request for proposal (RFP), often used for professional service type contracts, the using agency prepares a proposal for the goods or services they need and a SOW document is specified. The SOW should outline exactly what services the vendor will provide, along with estimated costs and timelines. MM then submits the SOW to at least three approved vendors (vendors are selected by using agency). If more than one response is received, the using agency then chooses the vendor.



Some types of contracts, such as professional services, require a scope of work (SOW).

## Expenditures

We identified over \$222.7 million in FY08 expenditures (through May 27, 2008) that could be specifically linked to contracts established by MM. Because of limitations within the County's financial system, these expenditures do not include contracts administered by Public Health, Human Services, the Courts, or Article 5 contracts administered by Maricopa County Department of Transportation (MCDOT) and the Flood Control District. Dollar amounts for identified contract expenditures can be seen in the chart below:



**Materials Management partners with many agencies to establish contracts.**

## Revenues

We were able to identify approximately \$68.1 million in FY08 intergovernmental revenues (through June 20, 2008). Intergovernmental revenues are generated when the County provides a service on behalf of another government agency. In these instances, the County acts as the vendor and invoices the other agencies. Examples of this include:

- MCDOT building bridges or roads for cities and towns
- Sheriff's Office housing prisoners for cities and towns
- Animal Care and Control providing animal control services for cities and towns

## **Scope and Methodology**

### Audit Objectives

The objectives of this audit were to verify that:

- Transactions processed were in compliance with the requirements and pricing outlined in the contract.
- Invoices were sent and revenues collected in accordance with the contract or IGA.
- Invoices for goods and/or services were documented adequately

### Audit Scope

To achieve these objectives, we selected high risk contracts and IGAs using a risk assessment process. The audit period primarily covered fiscal years 2007 and 2008, though some data from fiscal years 2004-2006 was also used.

We reviewed only those contracts that are linked with MM and listed in the Price Agreement Summary (PASM) table within the County's financial system—we did not include contracts administered by Public Health, Human Services, the Courts, or Article 5 contracts administered by MCDOT, and the Flood Control District. These agencies were delegated procurement authority and oversee and administer their contracts. They are not required to enter information into the PASM table, which does not facilitate expenditure tracking. While we believe that the majority of contracts overseen by MM have been identified, we are not confident that all contract expenditures have been identified. In addition, we did not review the bidding process during this audit.

### Audit Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

# Detailed Findings

## Outside Consulting, Auditing, and Accounting Services (Serials #01012-RFP and #06031-RFP)

- Description:** The County contracted with Deloitte Consulting, Weidner Inc. and Mercer Health and Benefits for various consulting projects
- Agencies Reviewed:** Health Care Mandates, General Government, MCDOT
- Period Reviewed:** FY04 through FY08
- Expenditures:** \$18.7 million (period reviewed)
- Questionable Costs:** Yes

We conducted a review of the Outside Consulting, Auditing, and Account Services contracts with Deloitte Consulting, Weidner Inc, and Mercer Health and Benefits. Our objectives were to verify that (1) transactions processed were in compliance with the requirements and pricing outlined in the contract, (2) invoices were sent and revenues collected in accordance with the contract or IGA, and (3) invoices for goods and/or services were documented adequately.

Healthcare Mandates and General Government administered the Deloitte and Mercer contracts and approved invoices for payment during the period covered by this review. Contract administration for these contracts is now overseen by the Office of Management and Budget (OMB).

### Results Summary – Deloitte Consulting

In most cases, we found that Deloitte followed contractual requirements. Although rates and hours billed were properly supported, invoices were not properly reviewed, supporting documentation was not requested, and invoices were processed without the department’s knowledge of the services provided. This resulted in the County paying for some unallowable expenditures.

In one instance, the County paid Deloitte for a personal long-term income tax liability. In addition, we noted a pattern of excessive travel expenditures, which may be allowable under the contract, but may not be a prudent use of taxpayer dollars. These included first class airline tickets, undefined business meals, discretionary personal expenses, and travel expenses on days that no hours had been billed to Maricopa County. We recommend that County Administration request reimbursement from Deloitte for disallowed expenses, review all invoices prior to payment, follow all contract terms, and provide prior written approval for all travel expenses.

## Criteria

Contract 01012-RFP (effective July 1, 2001 through August 31, 2006) outlined several key terms, including:

- The contractor is responsible for all taxes on salaries and wages paid to contractor's employees
- Travel expenses must be authorized by the County in advance and will be reimbursed at cost
- Report printing and other miscellaneous expenses will be reimbursed at cost

Contract 06031-RFP (effective March 2007 through July 31, 2009) outlined several key terms, including:

- All contract related travel shall be pre-approved by County
- Travel expenses shall be reimbursed at the U.S. General Services Administration (GSA) domestic per diem rates for Phoenix, Arizona
- Commercial air travel shall be scheduled at the lowest available airfare and/or most direct flight
- Rental vehicles may only be used if it is more cost effective than shuttle/taxi service; rental cars are limited to smaller sizes unless a large group of consultants is present; parking fees will be reimbursed if no free parking is available
- Contractor is responsible for any other miscellaneous personal expenses
- The County will reimburse any allowable and allocable business expense, excluding health club fees and business class airfares
- Travel and per diem expense shall be capped at 20% of project price

## Condition

We reviewed 15 of 126 invoices to determine if Deloitte was complying with terms of their contracts with the County. Invoices were being processed by the department for payment without any reassurance that the work was actually performed. No supporting documentation of hours worked or travel expenditures was provided by the vendor or requested by the department prior to payment.

While reviewing the supporting documentation provided by Deloitte, we noted the following expenditures that are clearly not allowed by the contract:

- \$7,857 for personal long-term income tax liabilities
- \$741 in restaurant hotel charges for one event (restaurant bill for \$661.25, refreshments center for \$44.14, and laundry service for \$31.85, and other miscellaneous charges for \$3.39)

We also questioned these expenditures under 06031-RFP:

- \$6,180 for first class airfare (with no indication that it was more cost effective)

- \$2,067 for rental cars (with no explanation of why it was more cost effective)
- \$531 in parking charges (County has free on-site parking for contractors)
- \$45 in cell phone charges with no documentation

In addition, although 01012-RFP allows for travel at cost, we observed a pattern of billing for expenditures that seem excessive or where no clear business purpose is documented. These included:

- \$1,847 in travel charges on days where no work was performed
- \$1,598 in client meals where client names and business purpose is not identified
- \$923 for incidentals
- \$583 in charges with no documentation (all charges are over \$25 each)
- \$70 meal billed in New York
- \$43 in fitness center charges
- \$32 gas station bill from Camp Verde (78 miles north of downtown work area)
- \$9 meal billed for career counseling
- \$2 toll for New Jersey road

### **Effect**

The lack of proper review of invoices has resulted in the County paying for expenses not allowed by the contract. In addition, the County has paid for travel expenditures that may not be a prudent use of taxpayer dollars.

### **Cause**

Healthcare Mandates/General Government did not properly authorize travel expenses in advance as required by the contract. Deloitte was not required to submit proper documentation with each invoice or a reconciliation of each trip.

### **Recommendations**

The Office of Management and Budget should:

- A. Request the consultant to reimburse charges not allowed in the applicable contracts.
- B. In future periods, timely review questionable time and travel expenses and obtain supporting documentation or explanation before approving invoices for payment. Charges that are not allowed by the contract should not be paid. In addition, according to the contract, County administration should provide advance written approval of overnight travel.

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### **Results Summary – Weidner Inc.**

Weidner Inc. provided facilitation and consulting services related to MCDOT’s Managing for Results (MfR) performance measures. The contract specified work activities, hourly rates, and allowable expenses.

Based on our review, both Weidner and MCDOT are following all contractual requirements. MCDOT has implemented strong controls to ensure the consulting services contracted from Weidner were accurately invoiced to Maricopa County. We reviewed one out of five invoices for FY08 totaling \$74,465 and found that services invoiced were properly supported and monitored by MCDOT and invoices and support was provided as required by the contract terms.

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### **Results Summary – Mercer Health and Benefits**

Mercer provided consulting services for Healthcare Mandates. We reviewed supporting documentation for two invoices totaling \$280,182. The contract specified work activities, hourly rates, and allowable expenses.

Based on our review, the vendor followed contractual requirements. We found only one immaterial discrepancy which the vendor agreed to refund. We found no other exceptions. Because of this, we did not perform any additional work on this contract.

## Public Relations Services (Serial #04180)

- Description:** Several vendors provided public relations (TV commercials, newspaper ads, information fliers, etc.) for various County programs
- Agencies Reviewed:** Air Quality, MCDOT, General Government, Health Care Mandates, Public Health
- Period Reviewed:** FY07 through FY08
- Expenditures:** \$5.8 million (period reviewed)
- Questionable Costs:** Yes

This contract is for the purchase of public relations services. There are seven approved vendors, though the majority of the expenditures were paid to a single vendor and two vendors have received no business. A chart showing the total dollars expended for the contract period by agency is shown below:

Department	FY05-FY08 Expenditures*
County Attorney	\$ 11,351
Human Services	2,301
Health Care Mandates	12,775
General Government	3,693,225
MCDOT	575,740
Animal Care & Control	2,813
Air Quality	1,054,818
Public Health	434,591
<b>Grand Total</b>	<b>\$ 5,787,614</b>
* Through February 5, 2008	

We judgmentally selected ten invoices based on using agency expenditures. The contract specified work activities, hourly rates, and allowable expenses. Based on that preliminary review, we found no discrepancies for the following projects (Department/Vendor/Project):

- General Government/Riester-Robb (Arizona Meth Project)
- Health Care Mandates/Topete-Stonefield (NACo prescription discount card)
- MCDOT/Barclay Communications (customer survey)

However, we identified three projects for further testing. Our results from testing are shown on the following pages. Our objectives were to verify that (1) transactions processed were in compliance with the requirements and pricing outlined in the contract, (2) invoices were sent and revenues collected in accordance with the contract or IGA, and (3) invoices for goods and/or services were documented adequately.

## **Results Summary – Topete/Stonefield (Ryan White Outreach Media Campaign)**

General Government administered the contract with Topete/Stonefield for the Ryan White Media Campaign (related to HIV/AIDS awareness) and approved invoices for payment during the period covered by this review. Contract administration for this contract is now overseen by Workforce Management and Development.

It appears that the vendor performed all contractually required services for the County; however, we found that invoice rates exceeded contract terms, and invoices did not include adequate supporting documentation. The Topete/Stonefield invoices were not properly reviewed which contributed to the County overpaying the vendor at least \$122,400. Workforce Management and Development should (1) require a review of invoices before payment, (2) better track projects to ensure they stay within the scope of work, and (3) request reimbursement from Topete/Stonefield for overpayments.

### **Criteria**

The contract specifies Topete/Stonefield rates and other general terms. This includes requiring a SOW document for all work done in excess of \$5,000. In addition, the County's Procurement Code requires quotes from three vendors for all purchases made in excess of \$5,000.

County Policy A1508 requires that food purchases must be approved by an elected official, presiding judge, or chief officer before the purchase is made.

### **Condition**

We reviewed ten invoices from Topete/Stonefield for Ryan White media services performed between July 2006 and February 2008. These were the highest dollar invoices that accounted for 99.8% of all expenditures for this vendor, under this SOW, during the period reviewed. We found that:

- The contract administrator did not obtain any supporting documentation from the vendor
- Over \$200,000 of work (including additional media buys, additional printing, and a \$2,900 launch party) was done with no SOW documentation
- Approximately \$528,000 (93.2%) of invoice amounts were paid based on estimates; the contract had no provision for advance payments
- The vendor was unable to provide supporting documentation for approximately \$58,456 in charges
- The vendor excessively marked-up goods and services by approximately \$25,950
- The vendor billed the County twice for the same AlphaGraphics invoice, costing the County an additional \$4,076
- The vendor passed a charge through a subcontractor, then back to the County, creating additional mark-up charges for the County in the amount of \$34,000
- Three invoices contained purchases of food, with no approval from the department head; these purchases were not on the SOW document

## **Effect**

The lack of proper review of invoices and tracking of project expenditures resulted in over \$200,000 of work being done with no SOW, and the County overpaying the vendor at least \$122,400. Non-compliance with the County's Procurement Code and other policies can lead to improper charges for the County.

## **Cause**

The Ryan White program did not properly review invoices, relying on "word of mouth" to ensure that services were performed. In addition, County policies were not followed and the County was billed estimated amounts before services were even performed.

## **Recommendations**

Workforce Management and Development should:

- A. Require that vendors provide detailed supporting documentation for any goods or services that are billed to the County.
- B. Require that project managers review all supporting documentation to ensure goods and services are delivered to the County and invoices follow contract terms.
- C. Track project expenditures and performance to determine when a new scope of work document is needed.
- D. Request reimbursement from the vendor for any overpayments that have occurred.

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## **Results Summary – Godec, Randall, and Associates (Bring Back Blue Campaign)**

The Air Quality Department administered the contract with Godec, Randall, and Associates for the Bring Back Blue campaign. It appears that the vendor has performed all contractually required services for the County; however, the Bring Back Blue invoices were not properly reviewed and supporting documentation was not obtained to ensure that charges were accurate. The lack of a proper invoice review has contributed to the County overpaying the vendor at least \$10,048. In addition, because of a lack of documentation, more than \$280,000 in questionable charges exists. Air Quality Department management should (1) require a review of invoices before making payments, (2) request additional supporting documentation to verify the accuracy of undocumented expenditures, and (3) request reimbursement from Godec, Randall, and Associates. As noted below, Air Quality resolved many of our questioned items through post-audit follow-up efforts.

## **Criteria**

The contract outlines rates that Godec, Randall, and Associates may charge and other general terms. The SOW document for the project outlines specific services to be performed and specific rates.

## Condition

We reviewed ten invoices from FY07 and FY08. These invoices were the ten highest dollar invoices from the time period. These invoices represented 91% of the total dollar value of the Bring Back Blue project for FY07 and FY08.

We found that while the Bring Back Blue project manager reviews all invoices to ensure that goods/services were provided to the County, detailed supporting information was not obtained from the vendor. In addition, invoices are not reviewed to determine if the amounts charged are correct. Our findings are summarized below:

- Nine invoices had at least some supporting documentation missing. This made it impossible to tell if the County was correctly billed for all items on those invoices. The invoices from Godec and their various subcontractors with missing documentation totaled over \$280,000.
- When recalculating media buy invoice amounts, we found that incorrect markup rates (17.6% instead of 15%) were often used. This resulted in the County being overcharged over \$8,000.
- Six invoices contained hours worked by Cairo Communications (a subcontractor) and had the following exceptions:
  - Three invoices billed the County for more hours than Godec was actually charged, totaling \$715 in excessive charges to the County
  - All six invoices marked up Cairo's services by 36.2%, which is over twice the allowed 15%, and totaled \$1,333

## Effect

The lack of a proper invoice review has contributed to the County overpaying the vendor at least \$10,048. In addition, because of a lack of documentation, more than \$280,000 in questionable expenditures exists.

## Cause

The Air Quality Department did not properly review invoices and request supporting documentation to ensure that charges were accurate.

## Recommendations

The Air Quality Department should:

- A. Require that vendors provide detailed supporting documentation for any goods or services that are billed to the County.
- B. Require project managers to review supporting documentation to ensure that goods and services are delivered to the County and that invoices follow contract terms.
- C. Request additional supporting documentation to verify the accuracy of approximately \$280,000 in undocumented charges noted.
- D. Request reimbursement from the vendor for any overpayments that have occurred.

## **Air Quality Audit Follow-up**

Subsequent to completing our fieldwork, Air Quality obtained and provided additional documentation to us that appear to have reduced questioned and undocumented costs to approximately \$37,000. We appreciate Air Quality's timely follow-up to our findings.

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## **Results Summary – ACS/Conaid (Public Notices)**

MCDOT contracts with ACS/Conaid to provide public notice media services. It appears that the vendor has performed all contractually required services for the County; however, MCDOT does not always thoroughly review supporting documentation prior to approval of invoices. This could lead to the County being overcharged for goods or services. We found approximately \$289 in incorrect charges. In addition, not putting projects in excess of \$5,000 up for bid is a violation of the County's Procurement Code and could lead to the County overpaying for the project. MCDOT management should require thorough review of invoices before payment and prepare one scope of work document at the beginning of each fiscal year for all public participation activities.

### **Criteria**

The contract outlines rates that ACS/Conaid may charge and other, general contract terms. This includes requiring a SOW document for all work done in excess of \$5,000. In addition, the County's Procurement Code requires quotes from three vendors for all purchases made in excess of \$5,000. The County's Certified Agency Procurement Aide (CAPA) procedures manual allows for cumulative contract expenditures of up to \$50,000 for an item or groupings of similar items with no additional approval.

### **Condition**

We reviewed 20 invoices from ACS/Conaid for public notice services performed between July 2006 and February 2008. These were the highest dollar invoices and accounted for approximately 27.2% of all expenditures for this vendor, on this project, during the period reviewed. We found that detailed support documentation was not always provided by the vendor and that no SOW documents existed, even though several projects had work done in excess of \$5,000. Our findings are summarized as follows:

- Some supporting documentation was dated after the invoice was already approved, which could indicate that it was submitted after the invoice had been paid
- 2 of the 20 invoices we reviewed contained other charges for \$185.10 on each invoice; supporting documentation shows the correct charges to be \$14.93 and \$66.00
- In our sample, there were several invoices for events (a public meeting or mailing) that were part of the same project. None of the invoices for individual events exceeded \$5,000, though the total invoices for a project often did exceed that limit. This was confirmed by the project manager, who said it can be difficult to estimate how many events will be needed for a given project. Therefore, a SOW is not prepared at the beginning of each project.

**Effect**

Not thoroughly reviewing supporting documentation could lead to the County being overcharged for goods or services. We found approximately \$289 in incorrect charges. In addition, not putting projects in excess of \$5,000 up for bid is a violation of the County's Procurement Code and could lead to the County overpaying for the project.

**Cause**

MCDOT did not thoroughly review all supporting documentation from the vendor. In addition, MCDOT did not estimate the number of required events and total cost prior to starting a project.

**Recommendations**

MCDOT should:

- A. Request reimbursement for the invoice errors noted.
- B. Require project managers to thoroughly review supporting documentation prior to approving invoices to ensure that goods and services are delivered to the County and that invoices follow contract terms.
- C. Prepare a scope of work document at the beginning of each fiscal year that includes all known events and a contingency for additional events.

## Pharmacy Services (Serial #04227)

<b>Description:</b>	Diamond Pharmacy provides medications and medical supplies to County jails
<b>Agencies Reviewed:</b>	Correctional Health Services
<b>Period Reviewed:</b>	FY08
<b>Expenditures:</b>	\$3.5 million (period reviewed)
<b>Questionable Costs:</b>	Yes

We conducted a review of the Pharmacy Services contract with Diamond Pharmacy Services for medication and supplies in County jail facilities. Our objectives were to verify that (1) transactions processed were in compliance with the requirements and pricing outlined in the contract, (2) invoices were sent and revenues collected in accordance with the contract or IGA, and (3) invoices for goods and/or services are documented adequately.

### Results Summary

Diamond Pharmacy charged the correct rates, however, we found that Correctional Health Services (CHS) does not adequately reconcile invoices and credit memos and does not maintain contract documentation in a manner that allows for easy reviewing. This has resulted in at least \$1,600 in credits owed to CHS. We were unable to determine the extent of overpayments due to lack of documentation. In addition, rates for emergency prescription and restocking fees were omitted from the contract terms making it unclear what would be an appropriate charge. CHS management should amend the contract to include omitted terms, request credits from the vendor, and develop an electronic reconciliation process to ensure the thorough review of invoices and credit memos.

### Criteria

The contract outlines various terms that the vendor must follow, including pricing (actual acquisition cost plus a \$3.40 dispensing fee) and performance terms. In addition, County Records Retention policy requires that using agencies retain all invoices, packing slips, receipts, and other contract related documents for "...one year after the fiscal year created or received."

### Condition

#### *Reconciliations*

We reviewed CHS's reconciliation process and found the following deficiencies:

- CHS reconciles invoices to reports produced by Diamond Pharmacy that should theoretically contain the exact same information as the invoices – CHS is reconciling the billing information to itself
- CHS does not reconcile the entire invoice to a receiving log produced by the Medical Inventory and Stock Team
- CHS appeared to have difficulty locating some of the documents requested (such as return logs)

When we reconciled various sources of information, we noted the following exceptions:

- In January 2008, CHS was overbilled by 12.1% (\$37.50 overcharge, \$309.16 total) in delivery charges for 4th Avenue Jail Intake
- We tested a sample of items that CHS was billed for, but did not receive and found that CHS received 3.34% (\$38.10 of \$1,139.99) of the estimated credit
- Our testing of items CHS returned to Diamond Pharmacy showed that CHS only received 17.1% (\$102.13 of \$596.99) of the estimated credit

### *Price Testing*

In order to verify that CHS is billed according to the contract terms, we tested a sample of billed prescription prices against wholesaler and manufacturer invoices provided by Diamond Pharmacy. We found several instances where the vendor charged more, and several instances where the vendor charged less than their actual acquisition cost. Overall, this resulted in a net *undercharge* to the County of approximately 4.2% (undercharged \$60.55 on a total of \$1,438.40 in charges) on the 50 prescriptions reviewed.

### *Other*

We found that 1,573 prescription numbers were used at least twice with a quantity of 15 pills during the month of May 2008. However, it appears that this was done pursuant to the contract. The contract specifically allows prescriptions to be split into smaller quantities for various reasons. We did no further testing in this area.

We also noted the contract states that CHS will be billed for emergency prescriptions at the “negotiated backup pharmacy rate,” yet does not outline what that rate is. Diamond Pharmacy provided the backup rate, which is significantly higher than the regular rate. The backup rate has a dispensing fee that is more than double the regular rate. Also, the backup rate is based on the average wholesale price of the medications, which is significantly higher than the actual acquisition cost.

In addition, we found that Diamond Pharmacy charges a restocking fee of approximately \$1.45 per returned prescription. Also, the dispensing fee of \$3.40 per prescription is not refunded. These items are not outlined in the contract.

### **Effect**

Based on a small amount of testing, we found nearly \$1,600 in credits that CHS is owed by Diamond Pharmacy. Records were not maintained in a format that would allow us to test more items, so this number could be significantly higher. In addition, when the contract does not include key items such as return/restocking fees and emergency prescription rates, it leaves open the opportunity for additional charges.

### **Cause**

CHS processes over 20,000 medications a month (orders and returns) and currently uses a manual reconciliation process. This manual process does not allow for an adequate

reconciliation of all invoices. In addition, the contract was not thoroughly reviewed for pricing information prior to approval.

## **Recommendations**

The Correctional Health Services Department should:

- A.** Request reimbursement from Diamond Pharmacy for the \$1,600 in credits.
- B.** Thoroughly review past invoices to determine if all credits were received.
- C.** Develop a proper computerized reconciliation process that ensures payments are only made for prescriptions that were received by the Medical Inventory and Stock Team.
- D.** Retain all contract related documents per County Records Retention schedules.
- E.** Periodically verify medication costs against actual cost paid by Diamond Pharmacy.
- F.** Amend the contract with Diamond Pharmacy to state the negotiated backup pharmacy rate and any return/restocking fees for returned prescriptions. If possible, obtain more favorable rates from backup pharmacies.

## **Library District (IGA with Cities; Electronic Subscription Contract)**

<b>Description:</b>	The Library District provides reciprocal borrowing to cities and electronic subscriptions to County residents
<b>Agencies Reviewed:</b>	Library District
<b>Period Reviewed:</b>	FY07
<b>Expenditures:</b>	\$2.4 million (period reviewed)
<b>Questionable Costs:</b>	Yes

The Maricopa County Library District (MCLD) operates 16 libraries with an FY07 budget of \$18.8 million and is funded by a secondary property tax. Its following two programs are used by participating city libraries:

- Reciprocal Borrowing Program using an intergovernmental agreement (IGA) (\$1.1 million spent in FY07)
- Electronic subscriptions using an Electronic Subscription contract (\$1.3 million spent in FY07)

### **Reciprocal Borrowing Program**

We conducted a review of the MCLD Reciprocal Borrowing Program (RBP) to determine if MCLD payments to participating RBP cities comply with the IGA and that the cities' quarterly reports meet IGA requirements.

Thirteen city libraries participate in the RBP, permitting County citizens to obtain a local city library card at all MCLD libraries and participating city libraries. MCLD reimburses city libraries the expense of issuing a library card to patrons residing in a different city (termed "non-resident"). MCLD requires participating cities to report quarterly the number of library cards issued to non-resident patrons.

To determine city reimbursements, MCLD uses these quarterly reports to calculate "net non-resident users." For example, if Phoenix issues 100 library cards to non-residents while 60 Phoenix residents obtain cards from non-Phoenix libraries, MCLD would reimburse Phoenix for the 40 net non-resident users. In FY07, MCLD increased its payment per net non-resident user from \$24.50 to \$29 in response to urging from city libraries and the Maricopa Association of Governments.

### **Results Summary**

MCLD reviewed and reduced city reimbursement requests on nine of the twelve FY07 reports we examined. However, review procedures are not adequate to ensure that MCLD:

- Explains adjustments to submitted reports
- Maintains supporting RBP records

Consequently, we were unable to confirm that MCLD's RBP payments were accurate or that they complied with the IGA.

## Recommendation

The Maricopa County Library District should formalize and implement audit procedures for all city reports submitted for payment.

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### Electronic Subscription Database

We reviewed electronic subscription invoices and County payments to verify that MCLD did not exceed the amounts authorized by the FY06-FY07 contract and that invoices are documented adequately and comply with contract requirements.

In FY06, at the request of the City of Phoenix and Maricopa Association of Governments, MCLD established electronic subscription contracts for all libraries countywide. Electronic contracts included ProQuest, Scholastic, Ebsco, WebFeat, Fairfield Language (Rosetta Stone), and Thompson Gale. MCLD covers the cost of these services. Additionally, MCLD has subscription services with Brodart, Morningstar, and Learning Express, limited to MCLD branches only. In FY07, MCLD spent \$1.3 million on electronic subscriptions for libraries in the County.

### Results Summary

- None of the payment amounts we reviewed (\$1.3 million or ten out of ten invoices) was in excess of the amounts authorized by the subscription contracts. MCLD reviewed and approved all invoices prior to payment. We found no significant deficiencies in MCLD's controls over payments issued to electronic subscription vendors.
- Other County agencies purchased electronic subscriptions they could have accessed through MCLD, had they been made aware of them. For example, we found that two County agencies purchased the Wall Street Journal, while two others purchased the New York Times, at a combined annual expense of \$2,290. MCLD provides free access to the Wall Street Journal and the New York Times content to County residents with library cards. In FY07, the County could have saved as much as \$81,000 in subscription services, if it had accessed electronic subscriptions through MCLD.

### Recommendations

The Maricopa County Library District should:

- A. Promote the electronic subscriptions available for free through the MCLD website.
- B. Coordinate with OMB to avoid budgeting for redundant subscription expenditures Countywide.

## **Bulk Fuels, Purchase and Delivery (Serial #05097)**

<b>Description:</b>	Union Distributing delivers unleaded gasoline to 13 County fueling sites
<b>Agencies Reviewed:</b>	Equipment Services
<b>Period Reviewed:</b>	July 1, 2007 through February 4, 2008
<b>Expenditures:</b>	\$7.3 million (period reviewed)
<b>Questionable Costs:</b>	None

We performed unleaded fuel inventories at Equipment Services' Durango and Surprise fueling sites. These inventories took place on February 20, 2008. We also performed two audits of unleaded fuel deliveries by Union Distributing. These deliveries took place at the Durango fueling site on February 20, 2008 and at the Mesa site on February 27, 2008.

### **Results Summary**

Union Distributing has fulfilled contractual requirements by adhering to contract terms and invoicing only for quantities delivered. However, Equipment Services does not perform regular fuel tank inventories or verify delivery quantities. This has led to the computer based inventory differing significantly from the actual tank inventory. Equipment Services should perform inventories on a regular basis, as well as perform audits of deliveries by vendors.

### **Criteria**

The contract states that "the County shall only authorize payment for the actual (net) quantity of each delivery."

### **Condition**

#### *Inventories*

We conducted a physical inventory of the Durango and Surprise unleaded fuel tanks to determine if any significant fuel shortages existed. We used print outs from Faster, FuelMaster, and the automatic tank gauging (ATG) system.

Faster is a computer system used to track the estimated fuel inventory by taking the fuel transactions from FuelMaster (which monitors fuel dispenser output) and delivery information input by the fuel coordinator. The ATG system uses sensors inside of the tank to determine the number of gallons of fuel in the tank at any given time.

Using the information described above, we were able to create an estimated inventory for any given site and time. We then visited the sites to conduct actual inventories, and then compared the estimated and actual inventories. We found significant overages at both locations. Our results are shown in the following table:

Item	Surprise	Durango
Beginning inventory (from Faster)	4,683.8	1,686.9
Actual usage (from FuelMaster)	821.2	982.6
Estimated ending inventory	3,862.6	704.3
Meter inventory	6,542.0	1,994.0
<b>Shortage/(Overage)</b>	<b>(2,679.4)</b>	<b>(1,289.7)</b>

The last time the fuel coordinator performed an inventory reconciliation on the Surprise and Durango tanks was at the end of FY07. Because of this, we can not determine when or how these overages occurred.

#### *Delivery Audits*

We conducted inventories prior to and after deliveries of unleaded fuel at the Durango and Mesa fueling sites to determine if the vendor delivered the quantities the County was billed for. We created an estimated inventory, based on beginning tank readings, usage, and vendor deliveries, and then compared that estimated inventory with an actual inventory performed after the delivery. We found immaterial differences at both sites, as shown below.

Item	Mesa	Durango
Beginning actual inventory	802.0	1,994.0
Delivery	7,985.0	8,756.0
Available	8,787.0	10,750.0
Actual usage	962.4	761.4
Ending estimated inventory	7,824.6	9,988.6
Actual ending inventory	7,947.0	10,055.0
<b>Shortage/(Overage)</b>	<b>(122.4)</b>	<b>(66.4)</b>

With the Mesa audit, we also compared FuelMaster readings with pump meter readings to determine if differences in readings could account for the overages discussed above. We found that the readings were within 1% of each other.

#### **Effect**

While we found overages during our audit, it could have just as easily been shortages. When Equipment Services does not perform regular inventory reconciliations, theft or fraud could occur and remain undetected.

#### **Cause**

Equipment Services only performs fuel inventory reconciliations at fiscal year end.

#### **Recommendations**

Equipment Services should:

- A. Perform regular fuel inventories and reconciliations.
- B. Perform occasional pre and post-delivery audits.

## Waste Tire Recycling and Final Disposal (Serial #02081)

**Description:** Crumb Rubber Manufacturers contracted with the County to recycle and dispose of all waste tires at two sites

**Agencies Reviewed:** Solid Waste

**Period Reviewed:** FY05-FY07

**Expenditures:** \$11.7 million (period reviewed)

**Questionable Costs:** None

### Results Summary

The contract specified work activities, rates, and allowable expenses. To verify that payment terms complied with contractual pricing agreements, we tested eight invoices between FY05 and FY07 totaling \$1,690,534. The invoices tested were accurate in the extension and unit price. We reviewed source documentation including tire manifests, scale house tickets, and vendor invoices for four invoices. We noted accuracy in the reconciliation of waste tire manifests and CRM invoices. The Waste Tire Recycling Contract between Maricopa County and CRM became effective on January 2, 2003. At that time, the County maintained two waste tire collection sites:

1. Northwest Regional Landfill (29,700 tons of tires on-hand at contract inception)
2. Queen Creek Landfill (400 tons of tires on-hand at contract inception)

According to Solid Waste management, the stockpile at the Northwest Regional Landfill was removed by CRM in accordance with the Tire Removal and Recycling Schedule. CRM acquired the existing waste tire collection and recycling facility in Queen Creek from a prior contractor that went bankrupt. The site was home to an additional 30,000 tons of stockpiled tires belonging to Maricopa County. The County reached an agreement with CRM to remit \$584,750 to CRM upon the successful removal and recycling of the stockpile. CRM fulfilled this agreement and was paid the contractually agreed upon sum in August 2006.



Aerial image of CRM's Queen Creek Facility as of January 2006



Aerial image of CRM's Queen Creek Facility as of November 2006

## Administrative Passenger Vehicles (Serial #03236)

<b>Description:</b>	Equipment Services contracted with Courtesy Chevrolet and Five Star Ford for the purchase of non-law enforcement passenger vehicles
<b>Agencies Reviewed:</b>	Equipment Services
<b>Period Reviewed:</b>	FY05-FY07
<b>Expenditures:</b>	\$2.3 million (period reviewed)
<b>Questionable Costs:</b>	None

### Results Summary

The two vendors from which the County purchased passenger vehicles fulfilled contractual obligations to the County. We reviewed factory and vendor invoices for 13 of 147 vehicles purchased under the contract, testing \$248,449 of \$2,297,020 expended and found that invoices were accurate, did not exceed amounts authorized by the contract, and were adequately documented.

### Criteria

The County entered into a cooperative purchasing agreement with the Department of Administration, State Procurement Office, as permitted by Arizona Revised Statutes § 41-2632, to purchase passenger vehicles. The contract allowed the County to order additional manufacturer and/or non-manufacturer accessories, options, or upgrades not specified in the contract and pay for amounts in excess of base prices specified in the contract. The contract authorized the County to purchase passenger vehicles under two different methods.

- Phase I Purchases - the County generally ordered vehicles directly from the factory
- Phase II Purchases - the County ordered vehicles from dealer stock

### Condition

According to a representative of the County's Equipment Services Department and per examination of the County's general ledger, the County purchased 147 passenger vehicles at a total cost of \$2,297,020. The following table details data relating to vehicles purchased under the contract and selected for testwork:

Phase	Vehicles Tested	Amounts
Phase I Purchases	5	\$97,169.47
Phase II Purchases	8	\$151,279.20
<b>Total</b>	<b>13</b>	<b>\$248,448.67</b>

Vendors provided the County with vendor invoices for Phase I vehicle purchases and with factory invoices for Phase II vehicle purchases. For Phase I purchases, amounts per vendor invoices matched corresponding base prices per the contract's Price Sheets. For Phase II purchases, factory invoices substantiated that the vendor properly charged the County and complied with contractual provisions.

## **Sanitation Services (Serial #04075)**

**Description:** Waste Management delivers and services portable toilets and hand washing stations at various locations throughout the County

**Agencies Reviewed:** Animal Care and Control, MCDOT, Flood Control District, Sheriff's Office, Solid Waste

**Period Reviewed:** July 1, 2006 through February 5, 2008

**Expenditures:** \$158 thousand (period reviewed)

**Questionable Costs:** None

### **Results Summary**

This contract is for delivery, setup, and service of portable toilets, portable toilet trailer units, and hand washing stations at locations throughout Maricopa County. There are general requirements for all departments and special requirements for the Sheriff's Office. There are no performance goals associated with this contract. It is a firm, fixed price purchasing contract, awarded to Waste Management, which covers a five year period ending June 30, 2009.

### **Criteria**

The contract outlines specific rates that can be charged and identifies vendor responsibilities.

### **Condition**

We reviewed a sample of 10 invoices, chosen at random. This sample represented approximately 1.6% of total expenditures (\$2,479 of \$158,475). We also interviewed personnel from all five using agencies to identify contract controls. After a preliminary review, it appeared that good controls were in place and we had identified no questionable costs. We performed no additional work on this contract.

## **MCDOT/City of Goodyear: Cotton Lane Bridge (IGA)**

**Description:** MCDOT and the City of Goodyear collaborated to build a bridge over the Gila River at the Cotton Lane alignment

**Agencies Reviewed:** MCDOT

**Period Reviewed:** FY06 through FY08

**Expenditures:** \$63 million (period reviewed)

**Questionable Costs:** None

### **Results Summary**

MCDOT entered into an intergovernmental agreement (IGA) with the City of Goodyear to build a bridge over the Gila River at the Cotton Lane alignment. Under the IGA, MCDOT was to procure and administer all construction, and Goodyear was to reimburse MCDOT for approximately  $\frac{3}{4}$  of all expenditures.

We reviewed all transactions between the City of Goodyear and MCDOT relating to this project. We also reviewed a sample of transactions between Kiewit Western Construction and MCDOT regarding this same project. Our objective was to verify that MCDOT was collecting revenue due from the City of Goodyear in a timely manner.

Based on our preliminary review, it appears that MCDOT has collected all money owed by the City of Goodyear to date. We noted that \$24,000 in services provided for Cox Communication had not yet been billed. The project manager stated that this billing and collection is scheduled to occur at the end of the project.



## **Insurance Broker Services (Serials #02010, #06158)**

**Description:** Risk Management contracted with broker Marsh USA Inc., and currently contracts with Arthur Gallagher and Co. to obtain all required insurance policies

**Agencies Reviewed:** Risk Management

**Period Reviewed:** FY08

**Expenditures:** \$4 million (period reviewed)

**Questionable Costs:** None

### **Results Summary**

We conducted a preliminary review of the Insurance Broker Services contract. Our objectives were to verify that (1) transactions processed were in compliance with the requirements and pricing outlined in the contract, (2) invoices were sent and revenues collected in accordance with the contract or IGA, and (3) invoices for goods and/or services were documented adequately.

Based on our preliminary review, it appears that appropriate controls are in place. Brokers are paid a flat fee and purchase insurance for the County. We verified the correct fees were paid. We also verified the price paid for premiums for the 13 current insurance policies purchased through insurance broker firms. We found that all of the companies met the contract requirement of the AM Best Rating of A rating or better; therefore, we did not perform any additional work on this contract.

# Department Responses

**Maricopa County Office of Management and Budget**  
**Deloitte Consulting Services**  
**01012RFP & 06031RFP- Outside Audit, Accounting and Consulting**  
**August 29, 2008**

**Issues**

Maricopa County General Government / Health Care Mandates Administration paid consultant invoices without sufficient review to assure that time and travel charges were appropriate and in accordance with the consultant contracts. County Administration did not request supporting documentation in support of consultant invoice charges. In some cases consultant charges were not billed in accordance with the contract.

**Recommendation A:** County administrators should request the consultant to reimburse charges not allowed in the applicable contracts.

**Response:** Concur—in process. OMB will further investigate the questioned charges, and request Deloitte to refund charges that are found to be not allowed by the contract.

**Target Completion Date:** September 30, 2008

**Benefits/Costs:** Recovery of costs not allowed by the contracts as determined by OMB's analysis of questioned costs.

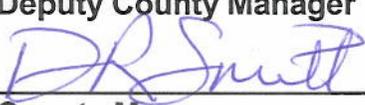
**Recommendation B:** In future periods, County administrators should timely review questionable time and travel expenses and obtain supporting documentation or explanation before approving invoices for payment. Charges that are not allowed by the contract should not be paid. In addition, according to the contract, County administration should provide advance written approve of overnight travel.

**Response:** Concur—completed. Oversight of Deloitte consulting contracts was transferred to OMB in April 2008. OMB has established improved review and approval processes to resolve questioned invoice charges before they are paid. All consultant invoices are now audited by the OMB Financial Management Analyst, and all itemized charges are validated against the terms of the contract in force. Billing exceptions are noted, and adjustments are made as necessary. Once the invoice audit is completed, invoices are forwarded to the manager responsible for the project or engagement for which the consultant was engaged. The responsible manager reviews to insure that the work was actually performed to the County's satisfaction, and authorizes payment with or without exceptions.

**Target Completion Date:** Completed.

Benefits/Costs: Elimination of costs not allowed by contract.

Approved By :

 Deputy Budget Director	<u>8/29/2008</u> Date
 Deputy County Manager	<u>8-29-08</u> Date
 County Manager	<u>9/2/08</u> Date

*Faint text: This document is only to be reviewed for informational purposes.*

*Faint text: This document is not intended to be used as a contract. It is not intended to be used as a contract. It is not intended to be used as a contract. Management accepts the risk of this issue. Do not consent.*

*Faint text: Although your signature will not be used, your signature will not be used for the benefit of the county.*

**WORKFORCE MANAGEMENT AUDIT RESPONSE**  
**Public Relations Contract (Serial #04180)**  
**Ryan White Media Campaign**  
**August 5, 2008**

**Issue #1:**

It appears that the vendor performed all contractually required services for the County; however, we found that rates charged exceeded contract terms and invoices did not include adequate support documentation. The Topete/Stonefield invoices were not properly reviewed which contributed to the County overpaying the vendor at least \$122,400.

**Recommendation A:** Require that vendors provide detailed supporting documentation for any goods or services that are billed to the County.

**Response:** Concur—in process. We will require vendors to provide all receipts, time sheets, or other supporting materials to support charges shown in invoices. A hard copy of all correspondence between staff and the vendors will be kept in the vendor file.

**Target Completion Date:** 8/01/08

**Benefits/Costs:** This will ensure we are only paying for goods and services actually received.

**Recommendation B:** Require that project managers review all supporting documentation to ensure that goods and services are delivered to the County and invoices follow contract terms.

**Response:** Concur—in process. We will require project managers to thoroughly review all supporting documentation prior to approving an invoice. The program manager's signature and approval of the invoice will occur after a review and verification of the accuracy of the supporting documentation.

**Target Completion Date:** 8/01/08

**Benefits/Costs:** This will ensure we received all goods and services listed on invoices.

**Recommendation C:** Track project expenditures and performance to determine when a new scope of work is needed.

**Response:** Concur—in process. We will develop a spreadsheet or database to track expenditures to date and progress on all projects. The program manager and program staff will review expenditures monthly.

**Target Completion Date:** 10/1/08

Benefits/Costs: This will ensure we do not exceed the agreed upon dollar amount from the scope of work, and will also allow us to track the performance of vendors.

**Recommendation D:** Request reimbursement from the vendor for any overpayments that have occurred.

Response: Concur—in process. The vendor has provided additional supporting documentation, which is being reviewed by Internal Audit. We will immediately request reimbursement for all questionable expenditures once Internal Audit has completed the review of the additional documentation. The request for reimbursement will be in writing, and the vendor will be requested to respond in writing with an action plan and timeline for reimbursing the program all overpayments.

Target Completion Date: 8/15/08

Benefits/Costs: The final reimbursement amount will be less than the \$122,400 originally identified as overcharges, but the final amount has not yet been determined. The program will request reimbursement from the vendor once the overcharge amount has been finalized.

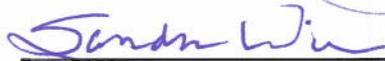
Approved By :



Department Head

8-13-08

Date



Deputy County Manager

8-13-08

Date



County Manager

8/13/08

Date



# Maricopa County

Air Quality Department

Office of the Director  
1001 North Central Avenue  
Suite # 500  
Phoenix, Arizona 85004  
602-506-6443 - desk  
602-372-6440 - fax

## AUDIT RESPONSE

### Public Relations Contract (Serial #04180)

### Bring Back Blue Media Campaign

#### **Issue #1:**

It appears that the vendor has performed all contractually required services for the county. However, the Bring Back Blue invoices were not properly reviewed and supporting documentation was not obtained to ensure that charges were accurate. The lack of a proper invoice review has contributed to the county overpaying the vendor at least \$10,048. In addition, because of a lack of documentation, more than \$280,000 in questionable charges exists.

**Recommendation A:** Require vendors to provide detailed supporting documentation for any goods or services that are billed to the county.

**Response:** Concur—in process. A request for supporting documentation was sent to Godec, Randall, and Associates. Steps will be implemented to ensure that the vendor provides all documentation as required.

**Target Completion Date:** 8/15/08

**Benefits/Costs:** Implementation of this recommendation will result in the department recovering overpaid charges and in validating other questionable charges. Ultimately, this recommendation will ensure that the county is only paying for goods and services actually received.

**Recommendation B:** Require project managers to review supporting documentation to ensure that goods and services are delivered to the county and that invoices follow contract terms.

**Response:** Concur—in process. Project Managers and the Financial Administrator will review all supporting documentation prior to approving an invoice for payment.

**Target Completion Date:** 8/22/08

**Benefits/Costs:** Implementation of this recommendation will ensure that payment is rendered for delivered goods and services and that invoices follow contract terms.

**Recommendation C:** Request additional supporting documentation to verify the accuracy of approximately \$280,000 in undocumented charges noted.

**Response:** Concur – in process. The department will request additional supporting documentation to verify the accuracy of the noted undocumented charges.

**Target Completion Date:** 8/15/08

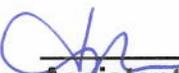
**Benefits/Costs:** Implementation of this recommendation will assist with the reconciliation of the charges paid.

**Recommendation D:** Request reimbursement from the vendor for any overpayments that have occurred.

**Response:** Concur—in process. After resolution of Recommendation C, the department will request reimbursement as appropriate.

**Target Completion Date:** 9/12/08

**Benefits/Costs:** Implementation of this recommendation will result in the recovery of overpayments.

Approved by:		8-11-08
	Department Head	Date
		8-11-08
	Assistant County Manager	Date
		8/15/08
	County Manager	Date



**MARICOPA COUNTY**  
*Department of Transportation*

INTEROFFICE MEMORANDUM

**Date:** August 12, 2008  
**To:** Ross L. Tate, County Auditor, Internal Audit  
**From:** John B. Hauskins, P.E., Transportation Director  
**Subject:** Audit Response – Public Relations Contract (Serial #04180)  
Public Notice Media Services

**Issue #1:**

It appears that the vendor has performed all contractually required services for the County; however, MCDOT does not always thoroughly review supporting documentation prior to approval of invoices. This could lead to the County being overcharged for goods or services. We found approximately \$289 in incorrect charges. In addition, not putting projects in excess of \$5,000 up for bid is a violation of the County's procurement code and could lead to the County overpaying for the project.

**Recommendation A:** Request reimbursement for the invoice errors noted.

**Response:** Concur—completed. We have requested full reimbursement for the items noted in your report.

**Target Completion Date:** 7/31/08

**Benefits/Costs:** Recovery of \$289.27

**Recommendation B:** Require project managers to thoroughly review supporting documentation prior to approving invoices to ensure that goods and services are delivered to the County and that invoices follow contract terms.

**Response:** Concur—completed. We will require project managers to review supporting documentation prior to approving an invoice.

**Target Completion Date:** 7/31/08

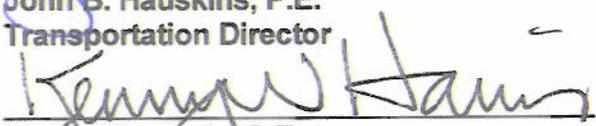
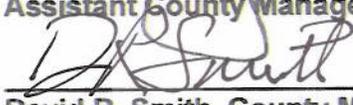
**Benefits/Costs:** This procedure will ensure the County receives all goods and services listed on invoices.

**Recommendation C:** Prepare a scope of work at the beginning of each fiscal year that includes all known events and a contingency for additional events.

**Response:** Concur—process changed to implement changes requested. We will prepare a scope of work at the beginning of each fiscal year to comply with the County Procurement Code. The scope of work will outline all anticipated public relations work for the proceeding fiscal year.

**Target Completion Date:** 7/31/08

**Benefits/Costs:** This will ensure that vendor expectations are documented and will protect the County from vendor abuse.

Approved By :		<u>8-12-08</u>
	John B. Hauskins, P.E. Transportation Director	Date
		<u>8-13-08</u>
	Kenny W. Harris, P.E. Assistant County Manager/County Engineer	Date
		<u>8/15/08</u>
	David R. Smith, County Manager	Date

cc: Mark Modin, Public Works Finance

**CORRECTIONAL HEALTH SERVICES AUDIT RESPONSE**  
**Pharmacy Services Contract (Serial #04227)**  
**August 25, 2008**

**Issue #1:**

Diamond Pharmacy charged the correct rates, even though the County may be paying more than necessary for certain medications. We found that CHS does not adequately reconcile invoices and credit memos and does not maintain contract documentation in a manner that allows for easy reviewing. This has resulted in at least \$1,600 in credits owed to CHS. We were unable to determine the extent of overpayments due to lack of documentation. In addition, rates for emergency prescription and restocking fees were omitted from the contract terms making it unclear what would be an appropriate charge. CHS management should amend the contract to include omitted terms, request credits from the vendor for the exceptions noted, and develop an electronic reconciliation process to ensure the thorough review of invoices and credit memos.

**Recommendation A:** Request reimbursement from Diamond Pharmacy for the \$1,600 in credits not received as noted in the report.

**Response:** Concur—in process. We will request reimbursement for all credits not received noted in your report.

**Target Completion Date:** 9/30/08

**Benefits/Costs:** Recovery of \$1,600.

**Recommendation B:** Thoroughly review past invoices to determine if all credits were received.

**Response:** Concur—in process. We will review past invoices to the best of our ability given the manual systems available to us and the volume of goods that have been returned to the Vendor and request any reimbursement for credits not received.

**Target Completion Date:** 3/31/09

**Benefits/Costs:** Potential recovery amount will be determined after credits have been reviewed.

**Recommendation C:** Develop a computerized reconciliation process that ensures payments are only made for prescriptions that were received by the Medical Inventory and Stock Team and credits are received for returns.

**Response:** Concur—in process. We have developed an electronic reconciliation process to help ensure that invoices are thoroughly reviewed, and are working on the creation of the same type of tool for the reconciliation of credit memos.

Target Completion Date: 3/31/09

Benefits/Costs: This procedure will ensure the County only pays for goods and services received, in addition to receiving appropriate credits when goods are returned.

**Recommendation D:** Retain all contract related documents per County Records Retention schedules.

Response: Concur—in process. We will have return logs readily available in electronic format, in addition to the invoices and credit memos that are now available in that format so staff can complete monthly reconciliations.

Target Completion Date: 12/31/08

Benefits/Costs: Documentation will be in a format to assist staff in reconciling the credit logs to the credit memos received from the Vendor to ensure credit memos are thoroughly reconciled and the County is receiving all credit for returned items. Invoices and credit memos will also be available electronically as well as paper copy.

**Recommendation E:** Periodically verify medication costs against actual costs paid by Diamond Pharmacy.

Response: Concur—in process. We will periodically verify medication costs against actual cost to ensure rates billed agree with contract terms.

Target Completion Date: 12/31/08

Benefits/Costs: This will help ensure that the County will not pay higher rates than agreed upon in the contract.

**Recommendation F:** Amend the contract with Diamond Pharmacy to state the negotiated backup pharmacy rate and any return/restocking fees for returned prescriptions. If possible, obtain more favorable rates from backup pharmacies.

Response: Concur—in process. We will amend the contract and agree upon terms for backup pharmacy rates and return and restocking fees.

Target Completion Date: 6/30/09

Benefits/Costs: This will help ensure that the County will not pay higher rates than agreed upon in the contract.

Approved By :

Betty Adams  
Department Head

8/25/08  
Date

Janet W.  
Deputy County Manager

8-26-08  
Date

DR Smith  
County Manager

8/28/08  
Date

This document does not include the information in your file.

Security Protocols to Mitigate Risks

and to be recognized  
Control procedures  
Control over all equipment with identification  
for all equipment in all currency positions.  
Management accepts the risk of this issue  
Do not require

Although the response may not be enough, it may be a good idea to have a  
backup of the data.

**AUDIT RESPONSE**  
**MARICOPA COUNTY LIBRARY DISTRICT**  
**JULY 18, 2008**

**Issue #1:**

**Inadequate documentation and formal procedures for auditing the Reciprocal Borrowing Program submissions by participating cities.**

**Recommendation:** The Maricopa County Library District should formalize and implement audit procedures for all city reports submitted for payment.

**Response:** Concur—in process. Current adjustments for fiscal 2008 year end submissions are being documented in a separate report. Will more formally document the procedures used to review submissions from cities.

**Target Completion Date:** 08/31/2008

**Benefits/Costs:** Increased ease of audit of the Reciprocal Borrowing Program records and payments.

**Issue #2:**

**Use of Electronic Database Subscriptions could be increased.**

**Recommendation A:** Promote the Electronic Database Subscriptions available for free through the MCLD website.

**Response:** Concur--in process. Continual marketing of these products is being done through video text crawling, hard copy information and tutorial sessions at libraries and on website.

**Target Completion Date:** Ongoing

**Benefits/Costs:** Increased awareness of these products will assist customers with their knowledge needs.

**Recommendation B**

Coordinate with OMB to avoid budgeting for redundant subscription expenditures Countywide.

**Response:** Concur--in process. Suggested opportunity to OMB during last budget cycle. Working with Materials Management to procure full text Wall Street Journal in renewal of contracts for Electronic versions of publications.

**Target Completion Date:** 12/31/2008

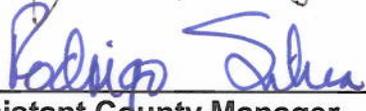
**Benefits/Costs:** Potential Savings to County Departments.

Approved By :



Department Head/Elected Official

7/21/2008  
Date



Assistant County Manager

7-25-08  
Date



County Manager

7/30/08  
Date

**EQUIPMENT SERVICES AUDIT RESPONSE**  
**Bulk Fuel Purchase and Delivery Contract (Serial #05097)**  
**May 7, 2008**

**Issue #1:**

A physical inventory of the Durango and Surprise unleaded fuel tanks on February 20, 2008 revealed (1) the Durango unleaded fuel tank was over (actual inventory was greater than estimated inventory) by an estimated 1,290 gallons, and (2) the Surprise unleaded fuel tank was over by an estimated 2,679 gallons. As Equipment Service is not conducting regular inventory reconciliations, reasons for the overages are difficult to pinpoint. The lack of regular reconciliations could allow theft or fraud to remain undetected.

Response: Concur

**Recommendation A:** Perform regular fuel inventories and reconciliations.

Response: Concur – in process.

Target Completion Date: 8/29/08

Benefits/Costs: N/A

**Recommendation B:** Perform occasional delivery audits.

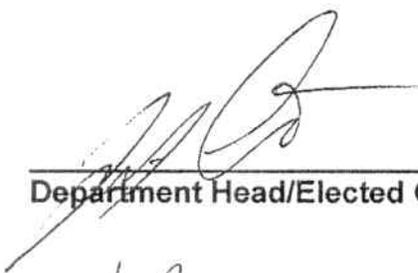
Response: Concur – in process

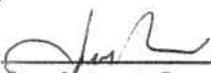
Target Completion Date: 8/29/08

Benefits/Costs: N/A

2008 MAY 14 PM 2:47

Approved By :

  
\_\_\_\_\_  
Department Head/Elected Official      5-14-08  
Date

  
\_\_\_\_\_  
Assistant County Manager      5-14-08  
Date

  
\_\_\_\_\_  
County Manager      5/29/08  
Date