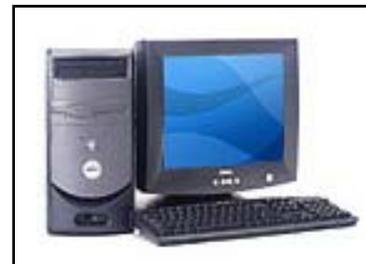




Internal Audit Report

Countywide Contracts August 2005



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August 31, 2005

Max W. Wilson, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We have completed our FY 2004-2005 review of Countywide contracts. This audit was performed in accordance with the annual audit plan approved by the Board of Supervisors. The seven County contracts reviewed were selected through a formal risk-assessment process.

Highlights of this report include the following:

- Lack of effective contract monitoring exposed the County to \$12,069 in overcharges for computer support and related services
- The County overpaid one vendor \$9,000 for sales taxes and registration fees on leased trucks

Attached are the report summary, detailed findings, and recommendations. We have reviewed this information with the appropriate departments and appreciate the excellent cooperation provided by all County employees involved. If you have any questions, or wish to discuss the information presented in this report, please contact Joe Seratte at 506-6092.

Sincerely,

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

Ross L. Tate
County Auditor

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EXECUTIVE SUMMARY TABLE

CONTRACT	COMMODITY OR SERVICE	PRIMARY COUNTY CUSTOMER	FY 2004 & 2005 EXPENDED	SIGNIFICANT FINDINGS
Serial 01042	Personal Computer Maintenance, Support & Related Services	Countywide	\$ 690,000	Lack of effective contract monitoring exposed the County to \$12,069 in overcharges
Serial 00162	Truck & Trailer Leases	Sheriff, Adult Probation	\$ 1.7 million	We identified over \$9,000 in overcharges for sales tax and vehicle registration fees not allowable in the contract
04163 IGA WSCA*	Personal Computer Equipment & Related Devices	CIO, Recorder, Public Health, et al	\$19.3 million	We were not able to verify that purchase prices did not exceed contract best-prices as documentation was not consistently maintained or adequate
Serial 03225	Traffic Sign Materials	Transportation	\$ 1.5 million	All invoices tested were properly approved and no overcharges were noted
Serial 01101	HVAC Service & Repair	Facilities Management	\$ 1.4 million	All invoices tested were properly approved and no overcharges were noted
Serial 00031	Landscaping Supplies & Chemicals	Transportation, Flood Control, Environmental Svcs.	\$ 400,000	All invoices tested were properly approved and no overcharges were noted
Serial 03225	Telecommunications Cabling	Telecom	\$ 750,000	All invoices tested were properly approved and no overcharges were noted

*Western States Contracting Alliance

Executive Summary

Personal Computer Maintenance, Support and Related Services (Page 5)

County departments do not adequately review supporting documentation and invoices against contracts to ensure that all payments are made in compliance with contract terms and conditions. Lack of effective contract monitoring exposed the County to \$12,069 in overcharges. County departments should strengthen controls over contract monitoring.

Truck & Trailer Leasing (Page 7)

The County expended \$1.7 million leasing large trucks and trailers from two vendors in FY 2004 and FY 2005. We reviewed \$1.4 million in vendor payments for compliance with contract pricing, and recovered \$9,000 in inappropriate sales tax charges. The Sheriff's Office and Juvenile Probation should improve invoice review procedures.

Personal Computer Equipment and Related Devices (Page 8)

The County participates in the Western States Contracting Alliance (WSCA) Master Price Agreement, which guarantees participants the lower of the agreement price, announced promotional price, or other price stated in the agreement. We were not able to verify the County received the best price per contract as historic price lists or vendor quotes were not consistently maintained and vendor invoices did not include adequate detail. County departments should retain copies of vendor price lists and quotations, obtain adequately detailed invoices from vendors, and verify that pricing does not exceed contract best prices.

Traffic Sign Materials (Page 9)

The County expended \$1.5 million for traffic sign materials in FY 2004 and FY 2005. \$340,000 has been expended on the current contract, which has been in place since April 2004. We reviewed invoices for \$176,000 of expenditures under the current contract and noted the purchasing department verified accuracy of each invoice prior to approving it for payment. Invoice pricing agreed to the contract for all invoices reviewed. Maybe it's just my computer, but the fonts, sizes above are inconsistent.

HVAC Service & Repair (Page 10)

The County expended \$1.4 million on heating, ventilation, and air conditioning (HVAC) service and repair in FY 2004 and FY 2005. We reviewed invoices that represented \$918,000 of these expenditures for compliance with contract terms and pricing and found that invoice pricing was consistent with the contract terms and conditions. In addition, each invoice was appropriately reviewed before being forwarded to the Department of Finance for payment.

Landscaping Supplies & Chemicals (Page 11)

The County expended nearly \$400,000 for contracted landscaping supplies and chemicals in FY 2004 and FY 2005, including mosquito fogging supplies related to the County's efforts to reduce public exposure to West Nile Virus. We tested invoices that totaled \$111,000 for compliance with contract pricing and noted no overcharges. The sampled invoices included purchases by the Department of Transportation, the Flood Control District, and Environmental Services.

Telecommunications Cabling Services (Page 13)

The County expended nearly \$751,500 for contracted cabling services in FY 2004 and FY 2005. Our testing of \$289,091 in invoices payments (38%) found these to be in compliance with contract terms with no overpayments or control weaknesses.

Introduction

Background

The County's Materials Management Department (MMD) negotiates, executes, and oversees approximately 950 Article 3 contracts with authorization of \$1.4 billion. The Article 3 contracts include services, commodities, equipment, maintenance, and repair. MMD contract oversight includes performing contract reviews on a rotating basis and communicating results to department personnel and County management. While MMD is responsible for procurement and oversight of County contracts, each user department is required to monitor vendor performance and contract usage. Part of this responsibility involves reviewing invoices for compliance with contract terms and pricing before forwarding them to the Department of Finance (DOF) for payment.

We annually select a group of County contracts and review invoices and contract monitoring controls. Other recent contract audits have identified control weaknesses that resulted in significant overcharges. For example, the FY 2004 audit of the Pitney Bowes mail-handling contract identified over \$650,000 in overcharges, which were subsequently recovered.

Contract Selection Process

The contracts reviewed are selected through a risk assessment process. Although we do not focus on specific offices or departments in our selection process, some of the contracts tested involve a single department. We selected seven contracts for testing based on risk criteria, which included:

- Total dollars expended
- High-risk nature of goods or services delivered
- Length of contract and complexity of terms

Scope and Methodology

The objectives of this audit were to verify that:

- Vendors comply with contract terms for delivery of goods and services
- Invoices do not exceed the rates/amounts specified within the contract
- Invoices for goods and services are adequately documented
- County Procurement Code and applicable statute requirements are met

This audit was performed in accordance with generally accepted government auditing standards.

Issue # 1 - Personal Computer Maintenance

Summary

County departments do not adequately review supporting documentation and invoices against contracts to ensure that all payments are made in compliance with contract terms and conditions. Lack of effective contract monitoring exposed the County to \$12,069 in overcharges. County departments should strengthen controls over contract monitoring.

Contract Terms

County contract serial #01042-RFP, Personal Computer and Server Maintenance, Support, and Related Services was awarded to one vendor. The contract was procured to provide maintenance and related support for County computer equipment and peripherals. Under the contract, the County is responsible for validating the equipment against the pricing agreement and providing the vendor with an updated inventory list. The \$6 million contract covers a three-year period, with two one-year renewal options. The largest using departments are Animal Care and Control, Telecommunications, Juvenile Probation, and Trial Courts.

Department Usage

In FY 2004, 13 County departments expended \$204,510 in monthly maintenance fees. In the first 11 months of FY 2005, six departments incurred maintenance fees of \$39,785. The decline in contract usage may be due to increased use of the lease-based Technology Finance Program (TFP) and the associated warranties that come with leasing new equipment.

Review Results

Analysis of FY 2004 and FY 2005 invoice payments identified \$16,205 in overcharges for three departments.



Departments	Amounts
Animal Care & control	\$ 7,279.77
Justice Courts	\$ 3,051.84
Telecommunications	\$ 1,737.72
	<u>\$ 12,069.33</u>

We also noted the following weaknesses:

- Invoices were not properly approved, supporting documentation was inadequate, and pricing amounts were inaccurate
- Departments receiving contracted maintenance do not provide consistent and timely equipment inventory updates to the vendor
- The vendor does not maintain adequate documentation in support of monthly maintenance billings to the County

Recommendation

The departments that continue to utilize the computer and peripheral maintenance contract should immediately send an updated inventory list to the vendor. Also, departments should carefully review and approve any future invoices for compliance with contract rates and terms before forwarding to the Department of Finance for payment. In addition, current and past contract users should review prior paid invoices to recover any overpayments from the vendor.

Issue # 2 - Truck & Trailer Leasing

Summary

The County expended \$1.7 million leasing large trucks and trailers from two vendors in FY 2004 and FY 2005. We reviewed \$1.4 million in vendor payments for compliance with contract pricing, and recovered \$9,000 in inappropriate sales tax charges. The Sheriff's Office and Juvenile Probation should improve invoice review procedures.

Contract Terms

County contract #000170 covers operational leases of large trucks and trailers. The primary users of the contract, the Sheriff and Juvenile Probation, lease trucks primarily for use in detention operations food service. Contract review identified risks in the following areas:

- The County can rent vehicles on a daily, weekly, monthly or yearly basis. If the County keeps the vehicle longer than originally agreed upon, the next-longest term rate is applied.
- The County is responsible for repair costs related to damage caused by the County or its employees, but the vendor is responsible for all other repairs and all standard maintenance.
- The Arizona Revised Statutes exempt truck leasing charges from sales tax when the motor carrier fee has been paid. Therefore, no sales tax should be charged on leases of vehicles with a gross vehicle weight over 12,000 pounds.
- The contract specifies that prices should be all-inclusive.



Review Results

We reviewed invoices that represented \$1.4 million of payments to these vendors for compliance with contract pricing and noted no significant deviations from contracted rental rates. In addition, all repair and related charges billed to the County appeared appropriate. However, we did identify and recover \$8,300 in inappropriate sales tax charges and \$900 in inappropriate vehicle registration fees.

Recommendation

The Sheriff's Office and Juvenile Probation should carefully review and approve invoices for compliance with contract terms before forwarding the invoices to the Department of Finance for payment.

Issue # 3 - Personal Computer Equipment

Summary

The County participates in the Western States Contracting Alliance (WSCA) Master Price Agreement, which guarantees participants the lower of the agreement price, announced promotional price, or other price stated in the agreement. We were not able to verify the County received the best price per contract as historic price lists or vendor quotes were not consistently maintained and vendor invoices did not include adequate detail. County departments should retain copies of vendor price lists and quotations, obtain adequately detailed invoices from vendors, and verify that pricing does not exceed contract best prices.

Contract Terms

The County participates in the Western States Contracting Alliance (WSCA) Master Price Agreement that guarantees participants the lower of the agreement price, announced promotional price, or other price stated in the agreement. Four vendors participate in the contract and each vendor maintains a current WSCA price list on the vendor website.



Review Results

The County leased or purchased \$19.3 million in computer equipment and related supplies from the four WSCA contract vendors in FY 2004 and FY 2005. In practice, most departments contact vendors, negotiate prices, and obtain a quote for a purchases rather than using the per item prices specified in the WSCA contract. However, purchasing departments do not consistently maintain documentation of either the WSCA price or the quotes. In addition, vendor invoices do not provide adequate detail to verify WSCA pricing.

We were therefore unable to consistently verify that invoice prices agreed to price quotes or were the best prices available for specific purchases.

Recommendation

County departments should:

- A. Retain copies of vendor price lists and quotations to verify that the best price is obtained and that invoice prices match quotations.
- B. Obtain vendor invoices that provide sufficient detail to permit best price verification.
- C. Compare quotations to WSCA prices to verify the quoted prices does not exceed the contract “best price.”

Issue # 4 - Traffic Sign Materials

Summary

The County expended \$1.5 million for traffic sign materials in FY 2004 and FY 2005. \$340,000 has been expended on the current contract, which has been in place since April 2004. We reviewed invoices for \$176,000 of expenditures under the current contract and noted the purchasing department verified accuracy of each invoice prior to approving it for payment. Invoice pricing agreed to the contract for all invoices reviewed.

Contract Terms

County contract serial #03255-C, Traffic Signing Materials, was awarded to three vendors. However, the vendors provide different goods under the contract.



- 3M – sign sheeting
- Zumar Industries – sign blank recycling: removal and re-facing
- ZAP Manufacturing – traffic sign blanks, ready-made signs, sign sheeting

The contract provides detailed descriptions and pricing of the goods covered under the contract.

Review Results

We reviewed invoices that represented \$176,000 (52 %) of purchases under the current contract. We found that Transportation purchasing routinely reviews invoices and verifies their accuracy prior to forwarding them to the Department of Finance for payment. We noted no deviations between invoice and contract pricing.

Recommendation

None, for information only.

Issue # 5 - HVAC Service & Repair

Summary

The County expended \$1.4 million on heating, ventilation, & air conditioning (HVAC) service and repair in FY 2004 and FY 2005. We reviewed invoices that represented \$918,000 of these expenditures for compliance with contract terms and pricing and found that invoice pricing was consistent with the contract terms and conditions. In addition, each invoice was appropriately reviewed before being forwarded to the Department of Finance for payment.

Contract Terms

County contract #01101 covers repair, maintenance, installation, and retrofit for heating, ventilation, and air conditioning equipment. Facilities Management is the primary user of the contract, although the contract is available to all departments. Contract work is grouped into two general categories: time and materials, and project work.

- Time and materials work: any solicitation of bids for work where the price is under \$5,000 (with the exception of emergencies). Work of this nature allows the vendor to bill the County for all labor, parts, and equipment at approved rates and mark-ups as set forth in the contract. This work has specific billing and invoicing requirements as documented in the exhibits section of the contract.
- Project work: when it is in the best interest of the County, work performed on major retrofits or repair should be done on an “all-inclusive” basis. Generally, the County will solicit quotes for this work and select the most advantageous quote based on all eligible responses. Each vendor is required to bill the County the quote price in addition to any approved change orders.



Review Results

We reviewed vouchers that represented \$918,000 of contract expenditures during FY 2004 and FY 2005 and noted that each invoice complied with the contract pricing and terms. In addition, the user departments had verified billing accuracy prior to approving each invoice.

Recommendation

None, for information only.

Issue # 6 - Landscaping Supplies and Chemicals

Summary

The County expended nearly \$400,000 for contracted landscaping supplies and chemicals in FY 2004 and FY 2005, including mosquito fogging supplies related to the County's efforts to reduce public exposure to West Nile Virus. We tested invoices that totaled \$111,000 for compliance with contract pricing and noted no overcharges. The sampled invoices included purchases by the Department of Transportation, the Flood Control District, and Environmental Services.

Contract Terms

County contract serial #00031-X, Landscaping Supplies & Chemicals, was awarded to five vendors. However, the five vendors provide different goods under the contract.

- Elgin Nursery & Tree Farm – landscaping plants
- Gardener's World – landscaping plants
- Mountain States Wholesale Nursery – landscaping plants
- Target Specialty Products – fertilizers, herbicides, insecticides & pesticides
- Western Organics – organic fertilizers, herbicides & insecticides



The contract provides detailed descriptions and pricing of the goods covered under the contract.

Review Results

Analysis of contract purchases showed that 99 percent of all dollars expended under the contract in FY 2004 and FY 2005 were for chemicals and chemical sprayers purchased from Target Specialty Products. Therefore, we limited our testing to Target Specialty Product invoices.

We selected invoices from three departments that represented 29 percent of all dollars expended under the contract for the period of review. All sample invoices were for purchases of herbicides, pesticides, fogging equipment, and spraying equipment. A summary of the items purchased by each department and their use is presented in the table on the following page.

Department	Products Purchased	Product Use
MCDOT	Herbicides & Pesticides	The MCDOT warehouse stocks these products for the public works departments. Parks & Recreation, FCD and MCDOT use the herbicides for weed control, and FCD uses the insecticide for insect control around dams
Flood Control	Herbicides & Pesticides	Remediation of weeds and insects that threaten earthen dams and application of mosquito larvicides to areas of stagnant water
Environmental Services	Fogger, Sprayers, Pesticides	Mosquito spraying for West Nile Virus prevention

We tested the invoices for compliance with contract pricing and terms and did not identify any charges in excess of contract pricing.

Recommendation

None, for information only.

Issue # 7 - Telecommunications Cabling

Summary

The County expended nearly \$751,500 for contracted cabling services in FY 2004 and FY 2005. Our testing of \$289,091 in invoices payments (38%) found these to be in compliance with contract terms with no overpayments or control weaknesses.

Contract Terms

County contract serial #03225-S, Telecommunications Cabling Services, was awarded to one vendor. The contract was procured to provide cable installation, termination services, and assistance with moves, adds, and changes for the County phone systems including data lines. Under the contract's pricing agreement, the County provides materials and the vendor provides resources needed to install cabling lines throughout Maricopa County. The original contract is for \$4 million covering a six-year period, with price adjustments on the contract anniversary dates. The largest using department is Telecommunications.

Review Results

Analysis of FY 2004 and FY 2005 invoice payments totaling \$289,091 for labor charges identified:



- Invoices were properly approved, supporting documentation was adequate, and calculations were accurate
- Timesheets, detailing labor hours, were submitted and approved as required within acceptable timeframes
- All other direct costs submitted for reimbursement were within contract parameters without material exception

Recommendation

None, for information only.