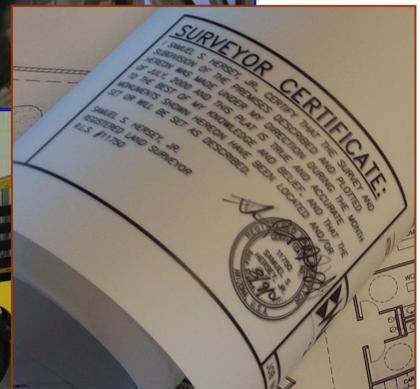




# Internal Audit Report

Facilities Management Department  
December 2001



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# Internal Audit Department

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December 31, 2001

Janice K. Brewer, 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 department review of the Facilities Management Department (FMD). This audit was conducted in accordance with the Board approved audit plan. Our review focused on controls over FMD's Capital Improvement Program projects, service and supply contracts, inventory controls, information reporting systems, and operational procedures.

Overall, we found FMD to operate effectively and carry out its mission. We also found areas needing improvement. These, along with our recommendations, are detailed in the attached report. The highlights are:

- FMD complies with most significant Maricopa County Procurement Code contract requirements; some exceptions and control weaknesses were noted.
- Our review of FMD's small construction projects and parts inventory found system control weaknesses and reporting inaccuracies.
- FMD does not adequately monitor revenue generating food contracts to ensure that vendors comply with all terms and conditions. Some control weaknesses relating to the Materials Management Department were also identified.
- Our testing of FMD's building badge access system identified security control weaknesses.

We have attached our report package and FMD's response, which we have reviewed with the Director. We appreciate the department's excellent cooperation. If you have questions or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

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

Ross L. Tate  
County Auditor

# Table of Contents

<b>Executive Summary</b>	<b>1</b>
<b>Introduction</b>	<b>3</b>
<b>Department Accomplishments</b>	<b>6</b>
<b>Detailed Information</b>	<b>7</b>
<b>Department Response</b>	<b>25</b>

# Executive Summary

## **Construction Projects** Page 8

Our review of five Capital Improvement Program (CIP) and Major Maintenance projects and 15 small construction projects found that FMD complies with most significant Maricopa County Procurement Code requirements. Some exceptions and control weaknesses were identified, which may increase the County's financial and legal risk. FMD should strengthen its oversight and monitoring controls for construction projects.

## **Small Construction Reporting** Page 10

Our review of FMD small construction projects found that the department does not adequately review internal system reports to ensure that reported expenditures are accurate and include change orders. For six of the eight projects examined having change orders, internal reports did not reflect change orders and under reported total project costs. The inaccurate data could be used in making financial decisions. FMD should strengthen controls to ensure that the system accurately reports project costs and other information.

## **Procurement** Page 12

Overall, FMD complies with Arizona Revised Statutes (ARS) and Procurement Code requirements for service and supply contracts. We reviewed \$94,498 of payments made by FMD to contract vendors and found overpayments and lost payment discounts totaling \$2,350 (2.5%). Some control weaknesses in FMD's invoice review procedures were also identified, which increase financial risk. FMD should strengthen controls over this activity.

## **Parts Inventory** Page 14

Our testing of 70 parts from FMD's inventory identified 24 (34%) parts that had count discrepancies, were inaccurately listed, or were missing. These results reflect control weaknesses in the department's internal inventory system. The lack of an adequate inventory control system negatively impacts operational efficiency and physical security over parts. FMD should strengthen controls over its parts inventory management and reporting system.

## **Revenue Generating Contracts** Page 16

FMD does not adequately monitor revenue generating food contracts to ensure vendor compliance with all terms and conditions. Vendors do not consistently submit required daily gross revenue totals, annual certification of revenue, and sales tax returns to ensure FMD can validate gross percentage of revenue. The County may lose revenue if vendors do not adhere to contract terms. FMD should strengthen efforts to improve vendor compliance to contract terms.

**Badge Access System**

Page 18

Our testing of FMD’s County facility badge access system identified security control weaknesses. Four (16%) of 25 County employees tested were found to have terminated employment. These former employees are still active in the system and, with their badge, can enter County parking garages and external secured doors. This situation may present a safety/security risk to the County. FMD should strengthen controls over the badge access system.

**Work Order Barcode Readers**

Page 19

Our review of FMD’s barcoder reader system, used for processing work orders, found that technicians correctly enter daily work order assignments into barcoders and download detail to the internal system. The system allows FMD management to monitor technicians’ workload and productivity. The department has developed controls adequate to ensure that the documentation maintained is accurate.

**County Leases**

Page 21

FMD executes County leases and property acquisitions in overall compliance with ARS and County policy requirements. Property records are well organized and maintained. We also found that some County leases are not filed with the County Recorder, as required by ARS, and that internal procedures are outdated. These weaknesses may expose the County to possible risk and negatively impact operational efficiency. FMD should strengthen controls in these areas.

**Indigent Burials**

Page 23

FMD performs and documents indigent burials in accordance with ARS requirements. Our review of FMD burial records verified that the system information maintained accurately reflects all required source data and that the files were well maintained and organized. No material exceptions or control weaknesses were found.

**Contract Administration**

Page 24

Our review of revenue producing and other FMD contracts, found exceptions to applicable requirements relating to Materials Management Department responsibilities. These control weaknesses expose the County to possible legal and financial risk. The Materials Management Department should strengthen controls over its contract procurement activities to ensure compliance with all applicable requirements.

# Introduction

## **Background**

The Board of Supervisors (Board) established the Building and Grounds Department in 1971 to serve as its agent for constructing and maintaining County facilities. Today the department is called the Facilities Management Department (FMD). Since inception, the department has undergone several name and organizational changes.

FMD operates under Arizona Revised Statutes (ARS) Title 11, which gives the Board authority to purchase property and designate its use. Title 34 permits the Board to authorize representatives to act as agents for facility construction. FMD responsibilities include:

- Maintaining and improving approximately 350 buildings, including jail facilities, having 7.9 million square feet.
- Overseeing facility planning, design, and construction.
- Coordinating and overseeing indigent burials.
- Providing security and safety services to County property and personnel.
- Coordinating the identification process and parking for employees, visitors, and jurors.

## **Mission and Goals**

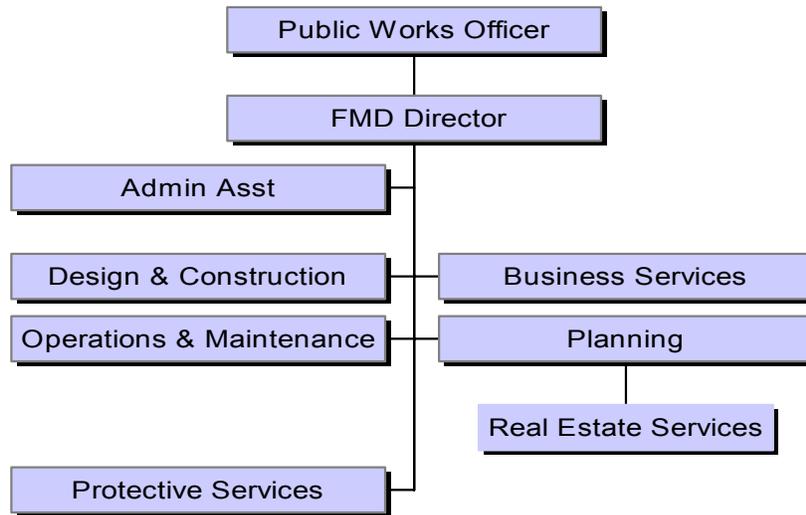
FMD's mission is to provide the highest quality customer service in facility design, construction and maintenance in an environmentally responsible manner. The department strives to provide excellent and innovative customer service "to every customer, every time."

One long-term goal is to reduce a backlog of \$100M deferred maintenance by 20 percent per year for the next five years. FMD plans on achieving this goal by applying space planning, maintenance, and construction standards across County occupied facilities to meet customer lifecycle operations and maintenance needs. FMD also plans full implementation of Managing for Results (MfR) program activities by 2003.

## **Organizational Structure and Budget**

FMD's director reports to the Chief Public Works Officer. The department is authorized 220 positions that are assigned to five operating divisions. FMD's operating budget for FY 2001-02 is \$23.5 million. The chart on the following page depicts the department's organizational structure.

## FACILITIES MANAGEMENT DEPARTMENT



### Departmental Improvements

Since FMD was last reviewed by Internal Audit in 1996, the department has initiated better County master planning and improved communication among facilities requiring service. Specific measures implemented include:

- Facilities Capital Improvement Program (CIP) Administrative Policy 1920, which created a Facilities Review Committee to monitor and approve CIP property needs.
- Space-planning guidelines with definitions and standards.
- A Facilities Master Plan for each department.
- The Major Maintenance Committee with members from the Office of Management and Budget, Court Administration, Sheriff's Office, and FMD that meets monthly to discuss projects over \$1 million.
- Monthly internal CIP meetings to update the FMD Director on projects' status.

### CIP/Major Maintenance Summary

FMD monitors its Capital Improvement Projects (CIP) and Major Maintenance projects and dollars by using an annual CIP/Major Maintenance Summary Report. The report lists all funded projects, programs, assigned project managers, and provides an accurate financial record of project expenditures. While project volume has increased significantly, FMD continues to effectively track and monitor funds. The report, which is shown on FMD's website, is updated daily to provide information to both internal and external customers.

## FMD Award

FMD's Maricopa County Regional Service Centers project was recognized as the 2001 Best Special Studies Project by the American Planning Association. The project evolved from a committee that investigated regional service centers as a viable method for delivering County services. The project involved numerous factors benchmarked for the five regions considered.



## Scope and Methodology

Our audit objectives were to determine:

- FMD's compliance with ARS, Maricopa County Procurement Code, and County policy requirements.
- The accuracy and usefulness of FMD's Capital Improvement Program/Major Maintenance Summary Report.
- The effectiveness of the department's automated work order process.
- The adequacy of FMD's contract monitoring function.
- The effectiveness of the department's controls over its parts inventory.
- The adequacy of controls established for the department's information reporting systems.

The audit was performed in accordance with Government Auditing Standards.

# Department Reported Accomplishments

FMD has provided Internal Audit with the following information to be included in this report.

- **Master Planning:** Under FMD leadership, 20-year facility master plans were completed for Downtown Phoenix Campus and Durango Business & Southeast Regional Centers
- **Capital Improvement Policy:** FMD drafted a policy that presents a system of reviewing and prioritizing capital projects. The policy established a Facilities Review Committee that reviews all capital projects over \$150,000.
- **Regional Service Centers:** FMD retained consultants to examine feasibility of establishing County regional service centers. Staff coordinated efforts to provide data to the consultants. The report received the Best Special Studies award from Arizona Planning Association.
- **Clerk of the Superior Court Customer Service Center and Parking Structure:** FMD completed on time and well under budget the first design-build building project in the public sector in Arizona. The project received the Outstanding Concrete Project award from *Southwest Contractor* magazine.
- **Security Center Building:** FMD acquired a 220,000 square ft facility to provide County space in downtown Phoenix. The building became the first district cooling customer, saving an estimated \$77K/year and eliminating the need for a \$750K replacement chiller.
- **Homeless Campus:** FMD championed the effort to design a campus for social service agencies in the downtown Phoenix area to address the homeless problem.
- **Graphic Standards Manual:** FMD initiated development of a Graphic Standards Manual to provide Countywide standards for signage, publications, stationery, business cards, vehicles, uniforms, etc. The manual includes an updated County seal.
- **Change of Venue - A Dining Marketplace:** FMD developed a partnership with a professional food vendor to improve the quality of food service and ambience while yielding \$60,000 per year in revenue to the County.
- **Janitorial Contract Cost Savings:** FMD will save the County \$120,000 over three years by adjusting the level of janitorial service and awarding new contracts.
- **Digital Alarm Monitoring System:** FMD's installation of this system will consolidate 36 satellite alarm systems and save \$17,000 per year.
- **Background Investigations:** FMD internally conducts background checks on new employees vs. contracting out the service, saving \$110,000 per year.
- **Energy Savings:** Through a performance contract, FMD implemented lighting and mechanical systems changes that will save \$492,000 per year in energy costs.
- **Master Security Systems:** FMD upgraded the electronic access security system to gain unlimited expansion capabilities and the ability to use biometric security technology as it becomes available, thereby improving physical security in County facilities.
- **Purchasing Card:** FMD's use of the P-Card saved approximately \$300,000 in processing costs in FY2001 and generated 74% of the County's P-Card activity.

# Issue 1 Construction Projects

## Summary

Our review of five Capital Improvement Program (CIP) and Major Maintenance projects and 15 small construction projects found that FMD complies with most significant Maricopa County Procurement Code requirements. Some exceptions and control weaknesses were identified, which may increase the County's financial and legal risk. FMD should strengthen its oversight and monitoring controls for construction projects.

## Requirements and Standards

ARS (Titles 32 and 34) and Article 5 of the Maricopa County Procurement Code set forth specific requirements that the County must follow when constructing or remodeling facilities. These requirements address contractor registers, bid and proposals, work order requests, scope of work and estimates, Notices to Proceed, Change Orders, payments, documentation, and expenditure approval limits.

County Administrative Policies A1914, A1915, and Design and Construction Standard Operating Procedures also contain important mandatory guidelines.

## Audit Testing and Results

We examined a cross section of FY 2001 and FY 2002 CIP, Major Maintenance, and small construction projects to determine FMD's compliance with the above requirements. The composition of the projects reviewed were:

- Five CIP/Major Maintenance projects involving expenditures of \$25 million from a total of \$196 million.
- 15 of 311 small (less than \$100,000) FMD construction projects with expenditures of \$407,000.

Overall, we found that FMD met the important compliance requirements. Some exceptions were identified and are summarized below:

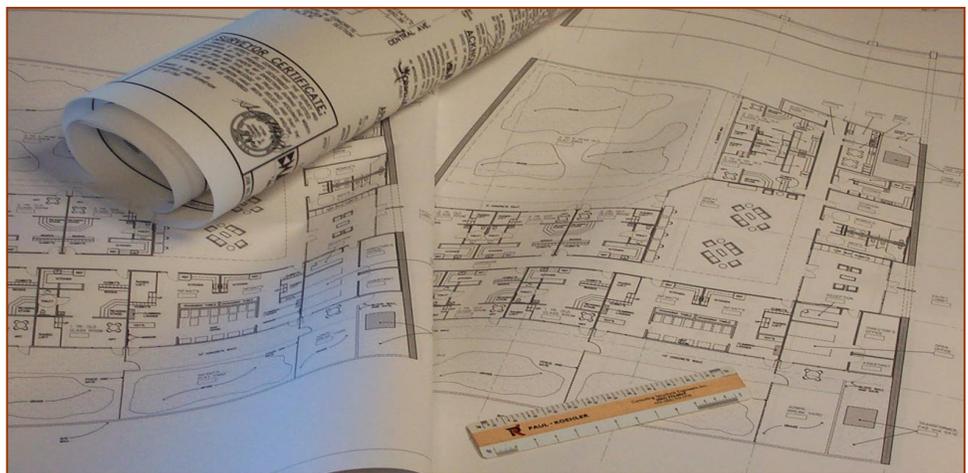
- Securities held in lieu of payment retention for two large projects were not adequate to meet amounts due and did not adequately protect the County's financial interest.
- Two Change Orders (\$25,000 total) for two projects were not signed by an authorized FMD Article 5 officer, as required.
- Three project Change Orders exceeding two percent of the contract amount were not signed by the County Engineer, as required by the Board. The total of these Change Orders was \$885,000.

- Four small construction contract Change Orders did not substantiate the change or validate the extra cost. One Change Order was prepared and approved after FMD received the final invoice.
- Certificates of Substantial Completion were missing on four projects.
- Two project punchlists, one containing 639 uncompleted work items, had no documentation to support specific clearance of the items.
- Notices to Proceed could not be found for all 15 small construction project contracts, as required by the Procurement Code.
- Other documentation (Procurement Bidder Quote Analysis, Work Order Request form, cost estimates) could not be found for some test sample projects.

**Risks** The control weaknesses and inadequate documentation noted above may expose the County to increased legal and financial risk.

**Recommendation** FMD should:

- A. Review Change Order limits with the County Engineer to ensure that Board approved limits meet FMD's ability to perform Article 5 construction; review the limits with project managers to ensure understanding and adherence.
- B. Review Securities in lieu of Retention requirements to ensure ARS compliance and protect the County's interest during construction.
- C. Review the Large Construction Index Filing standards to ensure compliance to all requirements.
- D. Revise operating policies and procedures as needed.
- E. Obtain the missing Certificates of Substantial Completion and other required documentation.



## Issue 2 Small Construction Reporting

### Summary

Our review of FMD small construction projects found that the department does not adequately review internal system reports to ensure that reported expenditures are accurate and include change orders. For six of the eight projects examined having change orders, internal reports did not reflect change orders and under reported total project costs. The inaccurate data could be used in making financial decisions. FMD should strengthen controls to ensure that the system accurately reports project costs and other information.

### MAXIMO Tracking System

FMD uses its automated MAXIMO system to store information related to small construction projects. The system assigns tracking numbers and holds cost data and project status information. Source files and the MAXIMO database, referencing the same project or file, should reflect the same information and financial data. To ensure accurate and consistent reporting, system programming should be validated and tested on a periodic basis.

### Test and Results

We selected 15 small (less than \$100,000) FMD construction projects from FY 2001 and FY 2002 to test the accuracy of the total costs reported by MAXIMO. Eight of the projects had change orders.

Two change orders were in the system and the total costs were correctly reported. However, change orders for six of the eight projects are not shown in MAXIMO and, as a result, total project costs are inaccurately reported. Specific exceptions found during our testing are:

- Five change orders were not reflected in MAXIMO and the reported total of these projects was understated by \$8,500.
- One change order, although notated in the system change order field, was not reflected in project total cost.
- One project's final costs were less than the original estimate and MAXIMO overstated the costs by \$8,100.

### Impact

The total costs of FMD small construction projects reported by MAXIMO are not always accurate. The usefulness and validity of data, downloaded from the system, may be questionable and affect financial decisions. Incomplete programming requirements and/or incomplete user training appear to be the reasons for data inaccuracies.

**Recommendation**

FMD should:

- A. Review and take actions necessary to adjust MAXIMO “change order field” programming and requirements, so that the system generates accurate reports.
- B. Determine if the change order notation, input to the system, requires an amount to be entered and if total project costs are updated with the change order amount.
- C. Ensure that all system users are adequately trained on how to make change orders in MAXIMO.

# Issue 3 Procurement

## Summary

Overall, FMD complies with Arizona Revised Statutes (ARS) and Procurement Code requirements for service and supply contracts. We reviewed \$94,498 of payments made by FMD to contract vendors and found overpayments and lost payment discounts totaling \$2,350 (2.5%). Some control weaknesses in FMD's invoice review procedures were also identified, which increase financial risk. FMD should strengthen controls over this activity.

## Statute and Requirements

The County must comply with contracting requirements set forth by ARS Title 41, Maricopa County Procurement Code Article 3, and the terms and conditions specified in individual contracts. The American Institute of Certified Public Accounts (AICPA) recommends an effective system of internal control over invoice processing. These controls include:

- Fix responsibility so that all cash discounts are taken.
- Claim all allowable exemptions from sales and other taxes.
- Receive invoices in a central location.
- Compare invoice prices and contract terms and check the accuracy of calculations.
- Maintain a current list of persons authorized to approve expenditures.

## Contract and Invoice Review

FMD administers 142 service and supply contracts. We selected five of the contracts (three service and two commodity) for review and testing purposes. From the five test sample contracts, we examined 22 invoices with payments totaling \$94,418. We assessed FMD's invoice review process and the department's compliance with applicable requirements.

Overall, we found that FMD complies with ARS and Procurement Code requirements. We also found overpayments and lost payment discounts totaling \$2,352 (2.5%) and control weaknesses in FMD's invoice review procedures.

Specific results are summarized in the table on the following page.

Performance Indicator	Commodity		Service			Total
	Paint	Uniforms	Electrical	Fire Alarm	Pest	
Amount of invoices	\$824	\$1,009	\$25,427	\$64,050	\$3,108	\$94,418
Number of invoices	5	5	5	5	2	22
Number of items invoiced	8	14	12	5	2	41
Unauthorized approval	0	3	0	0	0	3
No discount taken	5	0	2	3	0	10
Missing contract number	0	5	0	3	0	8
Items not listed in contract	7	0	0	0	0	7
Overcharged	6	2	3	0	0	11
Wrong price	1	1	0	1	0	3

Exceptions:

- Non-authorized FMD staff signed for three invoices (\$634).
- One Fire Alarm invoice was overpaid (\$2,028).
- Discounts were not taken for ten invoices (\$200).
- Other small overpayments were made (\$124 total).

**Impact** The County loses money when a department overpays contractor invoices and does not take advantage of allowable vendor discounts.

**Recommendation** FMD should:

- Strengthen controls over its invoice review process.
- Where possible, recover contract overpayments and lost discounts.

# Issue 4 Parts Inventory

## Summary

Our testing of 70 parts from FMD's inventory identified 24 (34%) parts that had count discrepancies, were inaccurately listed, or were missing. These results reflect control weaknesses in the department's internal inventory system. The lack of an adequate inventory control system negatively impacts operational efficiency and physical security over parts. FMD should strengthen controls over its parts inventory management and reporting system.

## Recommended Controls

Appendix C of the AICPA Government Accounting and Financial Reporting Manual makes control recommendations over inventory of goods. These include a periodic reconciliation of records with existing assets and the investigation of differences between records and physical counts.

## Inventory Testing

FMD uses its automated MAXIMO system to manage the department's parts inventory, which is valued at approximately \$646,000. The system can produce a parts master list (7,000 items) in barcode number order or parts by location. Each part has a specific identification tracking barcode.

FMD Operation and Maintenance (O&M) Division supervisors report that they conduct monthly inventory spot checks monthly using MAXIMO and technician work order reports. The department completed a FY 2001 year-end parts inventory in June 2001, which included the Durango, Mesa, and downtown locations and 60 mobile parts vehicles. A MAXIMO inventory listing as of June 30, 2001 was generated, signed, and certified.

To test the accuracy of FMD's parts inventory listing, we selected a sample from the MAXIMO parts list that was produced as of July 3, 2001. These parts were items stored at the downtown warehouse and three mobile parts vehicles, including one locksmith, one electrician, and one plumber.

Our testing procedure consisted of tracing items from the inventory report to the actual part, as well as, from warehouse stock back to the report. The table on the following page summarizes test results.

Inventory Location Review	INVENTORY COUNT			ERROR RATE		
	Report to Actual Physical Inventory	Actual Physical Inventory to Report	Total Items Compared	Missing or Listed Incorrectly	Discrepancy in Count	Total Errors
	(A)	(B)	(A) + (B)	(D)	(E)	(D)+(E)
Jackson Warehouse	13	12	25	6	0	6
Plumber Vehicle	12	12	24	1	7	8
Electrician Vehicle	5	5	10	1	4	5
Locksmith Vehicle	11	0	11	4	1	5
<b>Category Totals</b>	<b>41</b>	<b>29</b>	<b>70</b>	<b>12</b>	<b>12</b>	<b>24</b>
					Error Ratio	34.3%

The 6 missing warehouse items were not shown on the parts report, but were verified as having been input to the system. The reporting component of MAXIMO did not reflect all system detail.

The 24 discrepancies found between the MAXIMO inventory report and the physical parts count indicates system control weaknesses. The system and tables for inventory do not appear to have been adequately tested and validated and, as a result, MAXIMO currently is not effective as a perpetual inventory system. While the system can generate a listing of parts used and part received, FMD's Warehouse Manager said that MAXIMO does not generate a regular report that flags item usage and re-order need. All ordering is determined by manually checking the stock bins.

### Inventory Risks

FMD cannot verify the accuracy of parts on hand and properly certify inventory without an accurate reporting base. Without a validated mechanism to track and report items used and received, inventory levels risk being under/over stocked. These inventory control weaknesses also increase the security risk over FMD's parts inventory, as staff may be aware that parts can be taken from inventory undetected.

### Recommendation

FMD should:

- A. Conduct a complete parts inventory to identify all discrepancies and reconcile the discrepancies to provide an accurate inventory count.
- B. Make programming changes necessary so that MAXIMO generates accurate parts inventory reports.
- C. Consider the development and use of an automated mechanism for monitoring parts re-order.

# Issue 5 Revenue Generating Contracts

## Summary

FMD does not adequately monitor revenue generating food contracts to ensure vendors compliance with all terms and conditions. Vendors do not consistently submit required daily gross revenue totals, annual certification of revenue, and sales tax returns to ensure FMD can validate gross percentage of revenue. The County may lose revenue if vendors do not adhere to contract terms. FMD should strengthen efforts to improve vendor compliance to contract terms.

## Food Vendors

FMD administers the County's contracts for "Change of Venue" (County cafeteria) and Push Cart Food Vendors that operate downtown on County property. These contracts generate County revenue and contain several important compliance provisions that vendors must meet.

## Contract Terms and Review

We reviewed the two food vendor contracts and noted the following payment requirements:

- The Change of Venue contract requires the contractor to pay the County a percentage of gross revenues. NOTE: This contract took effect in March 2000, however, the vendor did not begin operations until December 2000 after facility construction was completed.
- The Push Cart Vendor contract (effective November 2000) was awarded to three food vendors. Each vendor is required to pay rent and a percentage of gross revenues, which vary by location.

We examined the revenue records submitted by the vendors. Based on these reported figures, the correct percentage payments and rent appear to have been paid. However, some required supporting documentation was not available for review. Therefore, all totals could not be validated. Our comparison of the contract requirements to the file documentation found the following exceptions to contract requirements:

Change of Venue: The vendor did not submit an Annual Certification of Gross Revenues within 120 days after the end of the contract year, as required. The certification was due at the end of July 2000. FMD stated the vendor asked that the certification date be changed to align with its September fiscal year end. The department provided a written request to Materials Management in November 2000 to amend the contract, however, an amendment is not on file.

The vendor did not submit daily gross revenue reports for six of nine months reviewed, as required. FMD also could not produce a check copy for August 2001 revenue. However, copies of checks for the prior eight months were on file.

FMD follow-up resulted in the collection of one late charge. However, another late payment (contractor's December 2000 payment dated February 15, 2001) was not levied a penalty, as required.

Push Cart: To validate reported revenues, FMD required the three vendors to submit copies of their City of Phoenix Sales Tax Return with their monthly checks, beginning with their January 2001 payments. This requirement was not part of the original contract and was not formalized into a written contract amendment. FMD records show that two vendors comply with the requirement. The third vendor has submitted only two of ten sales tax returns.

### **Negative Impact**

FMD's monitoring efforts, related to these contracts, are limited and the department has not strictly enforced the vendor to comply with contract terms and conditions. However, without the daily receipt documentation, revenue certifications, and sales tax returns, FMD has no assurance that vendors are reporting all revenues and that the County is receiving all payments due.

### **Recommendation**

FMD should:

- A. Ensure that the vendors understand all contract requirements.
- B. Consider amending, through the Materials Management Department, the push cart vendor contract to include the requirement that vendors submit copies of their City of Phoenix sales tax returns along with their monthly payments.
- C. Ensure that an amendment is prepared and signed, through the Materials Management Department, for Change of Venue contract to adjust the annual revenue certification report date to the vendor's fiscal year end, as requested.

## Issue 6 Badge Access System

### Summary

Our testing of FMD's County facility badge access system identified security control weaknesses. Four (16%) of 25 County employees tested were found to have terminated employment. These former employees are still active in the system and, with their badge, can enter County parking garages and external secured doors. This situation may present a safety/security risk to the County. FMD should strengthen controls over the badge access system.

### Building Security System

FMD utilizes an automated building access system (Momentum) that allows County employees to enter secured County facilities (buildings, parking garages, etc.) with their identification badges. Best practices suggest that management develop formalized procedures to ensure that access to facilities be promptly removed when an employee leaves their organization.

### System Test and Results

More than 12,000 County employees are listed in the Momentum on-line database. We randomly selected a test sample of 25 persons from the database and then verified if they were still County employees.

Our testing found that four (16%) of the 25 test sample employees had terminated employment but continue to have active badge access in the Momentum system. We were unable to determine whether these former employees still have physical possession of their badges.

### Risk

Terminated employees having access to County parking garages and secured external doors may present a safety/security risk for the County and its employees.

### Recommendation

FMD should strengthen controls to ensure that a County employee's badge access is promptly deleted from the Momentum system when the person terminates employment.

## Issue 7 Work Order Barcode Readers

### Summary

Our review of FMD's barcoder reader system, used for processing work orders, found that technicians correctly enter daily work order assignments into barcoders and download detail to the internal system. The system allows FMD management to monitor technicians' workload and productivity. The department has developed controls adequate to ensure that the documentation maintained is accurate.

### FMD Barcode System

FMD has implemented a barcode reader process to improve productivity and provide technicians with a paperless method to capture work orders and record maintenance time and activities. The department has developed written barcode unit operational procedures. The instructions primarily explain how to enter codes, use function keys, define screen utilization, and navigate through screens.

The AICPA Government Accounting and Financial Reporting Manual recommends maintaining project records and procedures so that timely and accurate account transfers can be made. When utilizing automated systems, such as the barcode readers, management should reconcile output totals to input totals for all data submitted.

### System Process

FMD Operations & Maintenance (O&M) technicians, responsible for direct labor maintenance, are given portable barcoders. The technicians' supervisor sends a request to the department's IT division, which programs individuals' name with a specific barcoder unit. Technicians sign a form indicating receipt of the unit and one supervisor maintains the list of all employees assigned a barcode unit.

Technicians use a barcoder card to sign onto the system daily and use specific codes to identify work activities, such as direct technical work or indirect labor (meetings, training, etc.). FMD dispatch assigns work orders to technicians via pagers. Technicians use the information received from dispatch and enter the work and building numbers into their barcoders. The technicians also use barcoders to track job start/end times, task ID, completed work, and parts used.

Technicians plug their units into a "dump station" at day end, where barcoder entries feed into the system. FMD's IT staff process files overnight and the following morning individual work detail reports are generated. The supervisor reviews the reports, which both the employee and supervisor sign.

## Barcode System Testing

FMD’s barcoder system work detail reports show all related information, such as:

- Work orders in process by technician.
- Work orders completed for a particular building for any specified timeframe (i.e., past 30 days).
- Outstanding work orders for a particular building.

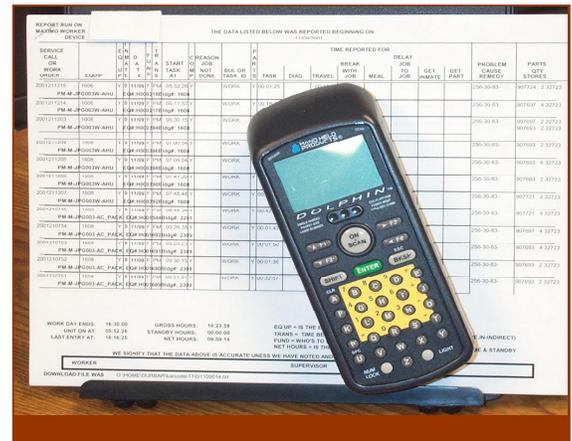
We selected 25 FMD work orders for testing. We traced the information from the work order to the technician’s daily detail reports that were generated by MAXIMO. We found 23 (92%) of the reports on file and all contained appropriate employee and supervisor signatures and accurate work order information. No material exceptions or control weaknesses were found. The two reports that could not be found most likely had been pulled earlier for review and then were misfiled.

## Impact

FMD’s barcode system appears to have improved operational effectiveness and efficiency. Information generated by the system will be useful for reports used in the Managing for Results program.

## Recommendation

None, for information only.



## Issue 8 County Leases

### Summary

FMD executes County leases and property acquisitions in overall compliance with ARS and County policy requirements. Property records are well organized and maintained. We also found that some County leases are not filed with the County Recorder, as required by ARS, and that internal procedures are outdated. These weaknesses may expose the County to possible risk and negatively impact operational efficiency. FMD should strengthen controls in these areas.

### ARS and County Requirements

ARS 11-462 requires that recorded public documents be filed with the County Recorder, which must keep indices by specific categories. These categories include conveyances of real property, mortgages, leases, and assignments of mortgages and leases agreements.

Administrative Policies A1901/1902 detail the County policies in effect for Real Property Requests and Existing Leases. County leases must be written, signed by all parties involved, reviewed by the County Attorney, approved by the Board, and recorded.

### Lease and Property Acquisition Testing

FMD is responsible for negotiating and obtaining County leases. The department also maintains all documentation supporting those leases. As part of this audit, we examined five of the County's 124 leases for compliance to applicable policy and procedural requirements.

We found that all five test sample leases were on file, approved by the Board, properly signed by all parties, and reviewed by the County Attorney. FMD lease files are numbered, adequately organized, and well maintained. We also found that three of the five leases had no evidence of recording by the County Recorder. FMD Real Estate Services personnel stated that several years ago the County Attorney's Office verbally reported that leases no longer needed to be recorded. However, no written communication was provided.

We also examined two of FMD's 25 property acquisitions for compliance with applicable requirements. The department's files contain appropriate Board approvals for rights-of-way with owners and property purchase, documentation for appraisals, escrow data, court orders for immediate possession and, notes explaining the acquisition process.

We also found that the County policy covering leases and site acquisitions, developed in 1991, were outdated. FMD's current practices no longer match the procedures outlined in the policies.

**Potential Risk**

If FMD does not file County leases with the County Recorder, the County may be exposed to legal and financial risk. As part of Internal Audit's 1996 FMD review, a recommendation was made that FMD update the County's policies/procedures for site acquisition and leases. The department drafted the updated policies and procedures, however, these were not finalized or adopted.

**Recommendation**

FMD's Real Estate Services office should:

- A. Review Administrative policies A1901 through A1903 and update the policies and procedures to reflect current practices and compliance requirements.
- B. Clarify (in writing) the legal issue of filing leases with the County Recorder and then comply with applicable requirements.

## Issue 9 Indigent Burials

### Summary

FMD performs and documents indigent burials in accordance with ARS requirements. Our review of FMD burial records verified that the system information maintained accurately reflects all required source data and that the files are well maintained and organized. No material exceptions or control weaknesses were found.

### Statutory Requirements

ARS 11-251-1.27 requires counties to provide reasonable expenses of burial for deceased indigents and maintain a permanent register of these persons including name, age, and date of death. Through joint effort, FMD and the Public Fiduciary provide this service for the County.

### Review Process

Each month approximately 30-35 indigents are buried at one of two County sites. The Public Fiduciary faxes FMD a decedents' list for weekly burial. FMD's Operation & Maintenance Division then makes gravesite preparations and, after receiving all applicable paperwork, performs the burials. The same FMD employee has performed these activities, without backup, for the past 15 years.

The division maintains manual burial logs and files. An automated Indigent Burial Tracking database is also maintained to track and back-up indigent burial data.

After burials, an FMD employee signs and dates the Arizona Department of Health Services (DHS) Vital Records Disposal-Transit Permits to evidence burial/disposition of decedents. The original permits and Indigent Burial authorizations are mailed to DHS' Vital Records Office.

We selected a sample of 20 (22%) of the 92 burials, performed between May and September 2001, from FMD's Burial Tracking Report. We traced data from the original records to manual logs and the Indigent Burial Report. No significant exceptions or control weaknesses were found.

### Recommendation

None, for information only.

# Issue 10 Contract Administration

## Summary

Our review of revenue producing and other FMD contracts found exceptions to applicable requirements relating to Materials Management Department responsibilities. These control weaknesses expose the County to possible legal and financial risk. The Materials Management Department should strengthen controls over its contract procurement activities to ensure compliance with all applicable requirements.

## ARS, Policy, and Contract Terms

ARS 41-2585 requires that any changes made to County contracts be documented by written amendments approved through the Materials Management Department. This control was established to protect the County against legal and financial risk.

Article 3 of the Maricopa County Procurement Code requires:

- An addendum to Bids to be issued to make changes, correct defects or ambiguities, and furnish respondents with material information given to another (Section 319).
- Specific procedures be followed for opening and recording bids and for documenting the results (Section 322).

As discussed in Issue 5 (Revenue Generating Contracts), FMD administers and monitors the County's Change of Venue contract and push cart vendor contracts. Articles IX and XV of the Change of Venue contract requires the contractor to fund certain improvements to County premises to facilitate the performance of services. The scope, schedule, and timing must be mutually agreed upon in writing by the parties.

The contractor is required to provide and maintain, during the term of the contract, a \$364,000 performance bond. Also, as previously noted, the contractor must submit an annual accounting statement to support the percentage of gross revenues remitted to the County, within 120 days after the end of each contract year. This contract and the push cart food vendor contracts require contractors to submit proof of insurance.

## Examination Results

During our review of these revenue producing contracts and other Article 3 contracts we found the control weaknesses presented in Issues 3 and 5. We also found exceptions to contract procurement requirements that are listed on the following page.

- The Materials Management Department did not develop a contract addendum to document its waiver of the \$364,000 performance bond granted in exchange for facility improvements to be made by the vendor; a requirement already established by the contract.
- The Materials Management Department also did not amend the Change of Venue contract after FMD submitted a November 2000 written request in November 2000 to change the contractor's gross revenue accounting statement date.
- Three of four food vendors' and two other Article 3 contract vendors' insurance had expired, was incomplete for coverage categories, or could not be documented.
- Bid Abstracts were not documented with names and signatures of employees opening and recording bids.
- The Advantage 2.0 System did not reflect the correct limit of the contracts; Advantage limits were higher than actual contract limits for three of five contracts reviewed. Encumbered amounts were retained below actual limit.

**Possible Risks**

The County may be exposed to legal and financial risk when the above noted contract procurement exceptions and control weaknesses exist.

**Recommendation**

The Materials Management Department should:

- A. Document the waiver of the \$364,000 performance bond granted in exchange for County retention of improvements made under the Change of Venue contract.
- B. Document receipt of, and actions taken, relating to FMD's written requests for contract amendments.
- C. Where necessary, obtain current copies of vendors' insurance coverage.
- D. Adjust the Advantage 2.0 System to reflect actual contract dollar values and dates.
- E. Ensure employees document Bid Abstract opening and recording.