*Internal Audit Report*

# DEPARTMENT OF PUBLIC WORKS
# CONTRACT COMPLIANCE REVIEW
# CUSTODIAL SERVICES
# AUGUST 2009

*Office of the County Auditor*

# OFFICE OF THE COUNTY AUDITOR

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The County Council and County Executive
of Howard County, Maryland

Pursuant to Section 212 of the Howard County Charter and Council Resolution 22-1985, we have conducted a review of selected activities of the

DEPARTMENT OF PUBLIC WORKS
CONTRACT COMPLIANCE
CUSTODIAL SERVICES

and our report is submitted herewith. The scope of our examination related specifically to a review of Custodial Service Agreements. The body of our report presents our findings and recommendations.

The contents of this report have been reviewed with the Chief Administrative Officer and the Director of Public Works. We wish to express our gratitude to the Bureau of Facilities and the Office of Purchasing for the cooperation and assistance extended to us during the course of this engagement.

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## SUMMARY

The Office of the County Auditor has performed a compliance review of certain custodial service agreements entered into by the County. Our scope included custodial service agreements in force during FY 2009 that included three contractors who provide these services to the County: Capital Cleaning Concepts, Inc., Advanced Facility Systems Group, Inc., and Full-Brite Cleaning Service, Inc. We specifically reviewed expenditures made in FY 2009 that were recorded in the Department of Public Works, Bureau of Facilities, under activity code 4770, custodial services, and object code 0245, Janitorial Services. As of May 31, 2009, the approved FY 2009 budget for this activity is $2,138,396 and year-to-date expenditures total $904,407. We found that the County and the other parties to the agreements appear to be in compliance with the respective terms and conditions. In addition, our review indicates that the personnel who are responsible for administering County custodial agreements have generally adhered to the policies and procedures that govern approvals of invoices and payments to contractors.

## INTRODUCTION AND SCOPE

Maintaining compliance with Howard County regulations and with the provisions of custodial service agreements requires coordination between several different agencies within County Administration, including the Office of Purchasing, the Department of Public Works, the Department of Finance and user agencies. We examined service agreements to determine that the parties to each agreement are in compliance with their respective terms and conditions. We did not examine the bidding process in this review.

County regulations state, "...any contract requiring the payment of funds from appropriations of subsequent fiscal years shall be made or approved by ordinance, pursuant to section 612 of the Howard County Charter." We determined that approval of payments by the County Council was unnecessary, since none of the custodial service agreements in our scope met this prerequisite. Typically, the term of custodial service agreements has been a one-year period with two or more one-year options to renew.

The custodial service agreements we reviewed were supported by written contracts in accordance with Purchasing Department policy that requires that a formal contract be signed by all parties for any purchase order for services of $30,000 or more. We examined each contract for appropriate signatures by the Purchasing Office and vendors' proposals for signature by a company representative. For each contractor, we agreed FY 2009 requisition releases (payments) to the Purchasing system detail and to a copy of the contractor's invoice. For each contractor, we examined all contractor invoices and payments made during three different monthly billing cycles in the current fiscal year. With the exception of an occurrence discussed in the "Findings and Recommendations" section, it appears that the contractual arrangements between the County and its custodial contractors were administered in accordance with the policies and procedures governing these activities. Contractor invoices were appropriately reviewed and approved and contractor payments were disbursed according to the terms of the Purchase Orders.

## BACKGROUND

The County contracts with various vendors for custodial services that consist primarily of office cleaning and "porter" services. When the Bureau of Facilities identifies a need for custodial services, based upon County planning or a specific request from an end user, the Office of Purchasing prepares an Invitation to Bid that details the scope of services and location where services will be provided. Formal solicitations that provide conditions for sealed bids are posted on the Office of Purchasing web site to inform potential contractors of the need for their services. Contractor's bids are evaluated by the Office of Purchasing based upon criteria spelled out in the Invitation to Bid. After the contract is awarded, a Purchase Order is issued that includes the required bidder's qualifications, contract period, billing and payment methods, staffing requirements, service frequency, specific areas to be cleaned, general cleaning specifications and other pertinent information. In the event that a contractor's work is deemed unsatisfactory or the contractor fails to furnish the minimum man-hours stipulated, the purchase order includes provisions that allow the County to apply deductions based upon a schedule included in the document.

Custodial contractors ordinarily submit monthly invoices that reference the purchase order number and include the location where services have been provided. At one time, invoices were routed through the Finance office and forwarded to the Bureau of Facilities for review and approval, but presently, they are sent directly to Facilities for this purpose. On occasion, the need for "special" or additional custodial services outside of the scope of the purchase order issued to a contractor may be brought to the attention of the Bureau of Facilities. Once it has been determined that an existing contractor has the capacity to provide these services and that there are sufficient funds available, Facilities will request that the Office of Purchasing prepare a new purchase order or a change order requisition that incorporates the additional tasks.

Contractor invoices are reviewed and approved by employees in the Bureau of Facilities. A fiscal specialist enters the invoice detail into the County Purchasing System on a line-item basis. A supervisor or manager reviews the invoice and enters his or her "electronic" signature signifying that the sub-order release is approved. Original invoices are forwarded to Finance where they are "scanned" into the AMS Advantage accounting system. Facilities personnel maintain copies on site for 30 to 60 days.

On an ongoing basis, the Bureau of Facilities actively monitors contractor performance and to a lesser extent, relies on the end-users of custodial services to identify lapses in service or quality of performance. Any discrepancies noted are immediately brought to the attention of the contractor for corrective action. Should an end-user discover an unsatisfactory condition or a shortfall in required services, they must alert the Bureau of Facilities in writing. Bureau of Facilities personnel notify the contractor of these types of deficiencies and discuss remedial action, where appropriate. When these types of problems arise, oral discussions between Facilities and the contractor are usually sufficient to correct a deficiency or provide custodial services inadvertently omitted. Continued unsatisfactory performance or omission of contracted services will result in written notification to the contractor and may trigger penalties specified in the purchase order. When necessary, payments to contractors are adjusted for billing errors or under circumstances where performance deficiencies are not remedied.

## FINDINGS AND RECOMMENDATIONS

Frequently, the Bureau of Facilities may be required to alter the scope of the work performed by custodial contractors who provide services under existing contracts. For example, situations have often risen where an end user identifies a new location (not included in the original Purchase Order) or an additional area within an existing location that requires custodial care. Alternately, contractor performance issues have required that the Bureau of Facilities modify the locations that a particular contractor services. These types of changes can be readily accommodated by requesting a change order requisition and entering the necessary data into the Purchasing System Database. During our testing of contractual compliance, we noted one instance where a change order requisition was entered into the Purchasing System Database, but subsequently erroneously deleted or cancelled. The change order data was entered in February, 2008, but the requisition was not processed and confirmed until after the error was discovered several months later during our audit testing. Consequently, payments made to the contractor in the interim period were not in compliance with the terms of the contract. Because of the volume of change orders associated with custodial service contracts, we recommend that:

1. ***The Bureau of Facilities improve controls over the issuance and tracking of change orders. In circumstances that require a change order requisition, Bureau of Facilities personnel should ensure that the requisition is processed and that a confirmation is received from the Purchasing System Database.***

**Administration's Response:**

The Administration concurs with this recommendation. The issuance and tracking of change order requisitions will be closely monitored to ensure all phases of the change order process are completed. This will be accomplished through the SAP Production program.

As highlighted earlier in this report, the initial approved FY 2009 annual budget for custodial services (activity code 4770) was $2,138,396. However, year-to-date obligations as of May 31, 2009 are $904,407, leaving over $1.2 million unobligated one month prior to the close of the fiscal year. Similarly, in FY 2008, $1,084,509 was expended for custodial services versus the original approved budget of $2,037,480. We discussed these anomalies with Bureau of Facilities management who stated that the budgets for custodial services anticipated higher costs

resulting from: 1) a significant number of newly acquired sites that would require additional janitorial services and, 2) the enactment of the County "living wage" legislation that would increase contractors' costs. Considering the large balance of unobligated funds as of May 31, 2009, it appears that the additional requirements for janitorial services identified in the budget process were substantially overestimated. Furthermore, the anticipated effect of "living wage" legislation was negated by the fact that the current custodial contracts were awarded before the effective date of the legislation (October 2, 2007). As a result of the significant recurring overstatement of the budget for custodial services, we recommend that:

2. ***The Bureau of Facilities develop a more reliable methodology for estimating the cost of contracted janitorial services. The budget calculation should take into account both historical and prospective data to ensure that the eventual outcome is a realistic estimate.***

**Administration's Response:**

The Administration concurs with this recommendation. The Bureau of Facilities will refine their methodology for estimating the cost of contracted custodial services to take into account the historical, actual and prospective data for budget projections.