



Lexington-Fayette Urban County Government  
OFFICE OF INTERNAL AUDIT

## **INTERNAL AUDIT REPORT**

DATE: January 19, 2012

TO: Jim Gray, Mayor

CC: Richard Moloney, CAO  
Sally Hamilton, Commissioner of General Services  
Jane Driskell, Commissioner of Finance & Administration  
Jamshid Baradaran, Director of Facilities & Fleet Management  
Brian Marcum, Director of Purchasing  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council Members  
Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: Facilities Management Review

### **Background**

This review was conducted at the request of the Division of Human Resources after allegations of inappropriate activity were brought to their attention by some LFUCG employees. The Office of Internal Audit became involved as the allegations were outside the expertise of the Division of Human Resources but were of a nature that could be addressed by the Office of Internal Audit.

### **Scope and Objectives**

The objectives of the review were to determine if:

- An allegation of purchasing improprieties regarding HVAC work administered by the Division of Facilities & Fleet Management is valid
- An allegation of a conflict of interest between a management employee in the Division of Facilities & Fleet Management and a custodial vendor is valid
- An allegation of facilities services being authorized by a management employee in the Division of Facilities Management in excess of legal agreement is valid
- An allegations of a financial conflict of interest by a management employee in the Division of Facilities & Fleet Management regarding the hiring of an custodial employee is valid

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance that controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of our review included HVAC and custodial service activity potentially related to the allegations described above.

### **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

### **Audit Opinion**

In our opinion, the results of the audit indicate there is insufficient substantive evidence to support the specific allegations. However, the audit did identify several issues related to HVAC purchasing activity administered by the Division of Facilities & Fleet Management. The audit also identified an opportunity to improve the custodial inspection process administered by the Division of Facilities & Fleet Management. Those issues are included in the Summary of Audit Findings.

### **Priority Rating Process**

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

### **SUMMARY OF AUDIT FINDINGS**

#### **Finding #1: Purchasing Procedure Violations Noted** **Priority Rating: High**

##### **Condition:**

Twenty of the 87 HVAC invoices we examined were applied against Purchase Orders that were unrelated to the actual work performed or the Department/Division for which the work was performed. An Administrative Specialist Principal informed us during the review that this employee sometimes made the decision to charge invoices to unrelated Purchase Orders that still had available balances because it was simpler than obtaining a new Purchase Order.

We also identified 17 Purchase Orders from our testing of 87 HVAC invoices that had issuance dates occurring after the date of the invoice applied against it. Some of these instances occurred because the invoices were applied against non-related Purchase Orders as noted above, and some may have been due the failure to request a Purchase Order prior to the work being performed and invoiced by the vendor. It is inconclusive whether some of these instances occurred because the supervisor in charge of the HVAC work failed to request a Purchase Order or if the Administrative Assistant Senior chose to apply the invoice against a Purchase Order that had a remaining balance.

**Effect:**

The violations noted above circumvent purchasing processes designed by management to provide reasonable assurance purchases are valid and approved prior to incurring the expense.

**Recommendation:**

An approved Purchase Order should be obtained from the Division of Purchasing on a consistent basis for HVAC services. If necessary, the Division of Purchasing can assign a Purchase Order number to accommodate emergency HVAC situations. This Purchase Order number can then be referenced when the Purchase Requisition is submitted after the emergency service is provided. Invoices should only be charged against related Purchase Orders, and Purchase Orders that are not used for the entire amount of the intended purpose should be closed out on a consistent basis once the related work is completed (with the exclusion of blanket Purchase Orders).

**Director of Facilities & Fleet Management Response:**

We have implemented an internal SOP which requires that all emergency PO's which are made for a larger amount such as \$2000 are reduced to the actual invoice price which removes any remaining funds. Therefore the PO is closed out to the actual invoice amount. There is no longer any cross usage of PO #'s and amounts.

**Commissioner of General Services Response:**

I agree with the Director's response.

**Finding #2 Change Order Process Circumvented**

**Priority Rating: High**

**Condition:**

We noted that Purchase Order LF00051732 was created and used to pay an additional \$30,317 on the Family Care Center HVAC replacement project. The vendor for this project had been selected via the bid process. The contract for this project was approved by Council and was initially assigned Purchase Order LF00042461 in the amount of \$495,846 to cover the cost of the project. Therefore, the request for additional funding should have been processed via a Change Order.

**Effect:**

The use of an additional Purchase Order to cover the additional cost of this contracted project circumvented the Council approval process.

**Recommendation:**

The Change Order process should be consistently adhered to for contracted HVAC work.

**Director of Purchasing Response:**

The bid specifications for this project allowed for increases or decreases based upon the number of units found to be in disrepair. The pricing schedule identifies this unit pricing. In the future the Division of Purchasing will follow the change order process as outlined for bids and when necessary identify these types of projects as unit price contracts.

**Commissioner of Finance & Administration Response:**

As the Director of Purchasing indicated this project noted allowed for the adjustment based on the situation and that the change order process will continue to be followed. However, I concur that an additional notation should be added to easily identify unit price contracts in the future.

**Director of Facilities & Fleet Management Response:**

The PO# LF42461 was funded by Family Care's Bond Funds which was completely exhausted. BMC created PO# LF51732 and placed the note below in the comment box of new PO in order to complete job.

"FCC's project bond fund against PO# LF42461 bid# 103-2008 does not have fund available. Per Ben Turpin and Brian Marcum, BMC will pay for additional costs to project. See quotes in comment attachment. WO# 29-2203"

All change orders must be approved in writing by the Deputy Director of Facilities Management. If a vendor's invoice is received for an amount other than the PO amount the DD is given all paperwork for his review. Approved change orders are to be handled according to purchasing guidelines.

**Commissioner of General Services Response:**

I agree with the Director of Facilities and Fleet response.

**Finding #3 No Evidence of Verbal Quotes**

**Priority Rating: High**

**Condition:**

Our detail testing identified six HVAC jobs costing between \$1,000 and \$10,000 that had no evidence of verbal quotes being obtained, in violation of LFUCG Purchasing Procedures.

**Effect:**

Failure to comply with the verbal quote requirement could result in LFUCG not receiving the best cost for HVAC work performed.

**Recommendation:**

The LFUCG Purchasing Procedures verbal quote requirement should be consistently adhered to. Documentation verifying the verbal quotes were obtained should be attached to the Requisition as instructed by LFUCG Purchasing Procedures.

**Director of Facilities & Fleet Management Response:**

Effective January 15<sup>th</sup> 2012, the Deputy Director of Facilities Management will be responsible for review and approval of all verbal quotes ***in writing***. This should eliminate any problems regarding this issue.

**Commissioner of General Services Response:**

I agree with the Director's response. At this time we would feel more comfortable with written quotes.

**Finding #4 Work Order Documentation Issues Noted**

**Priority Rating: High**

**Condition:**

Whenever a Division or Department requests HVAC services, a Work Order should be generated by Facilities Management personnel. When the service related to the Work Order is completed, the supervisor signs off on the Work Order indicating the work has been successfully performed. The Operations Manager or Deputy Director is also required to sign off on the Work Order to indicate the work has been performed and they have audited the cost thereof.

During our detail testing, we requested 26 Work Orders to validate compliance with this HVAC work request and review process. Three Work Orders could not be located (Work Orders 2010-3000, 2010-1762, and 2010-1630), and 12 of the 23 Work Orders that were located did not contain the dual signoffs to indicate sufficient review of the HVAC work performed.

**Effect:**

The absence or incomplete review of HVAC Work Orders impacts the verification of and accountability for HVAC work.

**Recommendation:**

HVAC Work Orders should be retained on a consistent basis to document the request for and necessity of HVAC services. The dual signoff process should be consistently adhered to in order to demonstrate proper review of the work performed and the related costs.

**Director of Facilities & Fleet Management Response:**

Due to the large volume of WO's and PO's and the severe reductions in the number of mid-management staff, we would like to propose a "sample Audit" which should provide a reasonable oversight without exhausting all of our limited resources.

**Commissioner of General Services Response:**

I agree but also suggest that the random sample review be performed on a regular basis by a party not involved in the process.

**Finding #5 Contract Cleaning Inspection Process Improvement Needed**

**Priority Rating: Moderate**

**Condition:**

A substantial amount of the cleaning of LFUCG buildings is performed by outside custodial contractors. The work of those contractors is reviewed by Division of Facilities & Fleet Management personnel and documented on Contract Cleaning Inspection Reports. Those reports include a section for the signature of the custodial contractor indicating their participation in the inspection process. Many of the Contract Cleaning Inspection Reports we reviewed did not contain the contractor's signature, and we were informed that the inspections often occurred in the absence of the contractor.

**Effect:**

This weakens LFUCG's position when the termination of custodial contractors for lack of performance becomes necessary, and could also expose the LFUCG to allegations of unfair or biased inspections.

**Recommendation:**

Inspections should be conducted with the contractor as often as possible and their signature acknowledging the results should be obtained. When this process cannot be complied with, the reason(s) thereof should be documented on the Contract Cleaning Inspection Report.

**Director of Facilities & Fleet Management Response:**

This issue was identified internally and since then appropriate SOPs have been implemented in regard to the proper steps for conducting performance audit of contracted janitorial services.

**Commissioner of General Services Response:**

I agree with the Director's response.