



Lexington-Fayette Urban County Government

Division of Internal Audit

INTERNAL AUDIT REPORT

November 25, 2003

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer
Kathy DeBoer, Commissioner of General Services

FROM: Bruce Sahli, Director of Internal Audit

RE: Property Management Audit

Background

The Property Management Division is responsible for the grounds maintenance of properties owned by Lexington Fayette Urban County Government and for county road rights-of-way. This maintenance work is allocated between Property Management work crews and outside contractors. A significant amount of Property Management equipment and personnel are dedicated to the internal servicing of these properties. During FY 2003, the three major mowing contractors were paid \$326,911 for services rendered, representing 10% of the Division's Adopted Budget for that year.

At the request of the Chief Administrative Officer, we conducted an audit of the Property Management Division in order to determine the validity of certain allegations made by Property Management employees regarding Division practices. Our audit focused on that segment of the Division responsible for grounds maintenance.

Scope and Objectives

The general control objectives of the audit were to determine:

- Use of LFUCG personnel and equipment is appropriate in nature.
- Outside contractor activity is appropriate and properly managed.

- Management systems are in place to provide effective analysis and review of grounds maintenance activities.
- Management systems are in place to provide effective review and evaluation of program costs.

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. 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 controls and procedures did not provide reasonable assurance that the general control objectives were being met.

Summary of Audit Findings

Inappropriate Use of LFUCG Time & Equipment

We examined several Property Management employees' computers to investigate allegations of excessive personal use of LFUCG time and equipment. The hard drive on Employee A's office computer contained numerous files relating to activity outside of his government duties. For the period September 1, 2002 through September 22, 2003, 65 files containing letters, schedules, songs, and programs related to his church or a personal business were found on the hard drive. All of these files were produced during normal office hours, and many were quite lengthy, indicating the likelihood significant office time was required to produce them. See Attachment I for details.

Also noted on this hard drive were several digital photographs of personal activities taken with a LFUCG Digital Camera, including at least six where the camera was clearly operated by someone other than Employee A. In addition, although a direct link between the existence of personal files and the use of office printers cannot be established, a large box full of empty printer toner cartridges was found in his office. The letters, schedules, etc., previously mentioned would typically have required the use of printers for production and distribution.

Employee A has served as Treasurer for a civic organization. Located in his office was a large binder containing numerous documents related to those duties, including e-mails, spreadsheets, tax forms, bank statements, memos, accounting entries, etc. The document dates ranged from early 2000 through mid-2003. The presence of these documents in his office indicates the

likelihood this was an additional personal project he worked on during official government time using LFUCG equipment.

Taken as a whole, the activity described above indicates a violation of CAO Policy 25, Lexington Fayette Urban County Government Computer Policy. This policy limits the personal use of microcomputer equipment to incidental use that does not interfere with the performance of the user's official duties. In addition, any copies made for personal business would require reimbursement for supplies used as required by CAO Policy 9R, Personal Use of Government Equipment by Employees. It also appears the LFUCG Code of Ethics regarding the use of government property for personal benefit, convenience, or profit has been violated. While we found no evidence of significant compensatory time reported during the periods in which extensive personal work was performed (and LFUCG timesheets do not indicate beginning and ending work periods), it is also recommended the Human Resources Division consider the evidence to determine if it indicates a falsification of reported work time.

The audit also identified several unauthorized computer games on Employee B's computer, in violation of CAO Policy 25, Lexington Fayette Urban County Government Computer Policy. Appropriate action should be taken to remove the games and address the policy violation.

Lack of Management Oversight of Contractor Mowing

The audit found no documentation evaluating the quality or timeliness of work performed by mowing contractors. Also missing was any evidence contractors were given written instructions or schematics of the properties they were responsible for mowing, which would provide concise information regarding property boundaries and performance standards. The absence of this documentation makes systematic review of contractor performance a difficult and subjective task. The ability to perform such reviews in an objective and qualitative manner is a valuable management tool in determining whether to renew contracts or award new ones to contractors, as well as providing the highest quality mowing service for LFUCG.

Contractors should be given precise instructions regarding property boundaries and performance standards. Mowing by outside contractors should be carefully monitored on a consistent basis for timely completion and quality of work. A quality review questionnaire or similar document should be developed by Property Management and completed whenever contract mowing services are reviewed. This review process should be logged and tracked to ensure consistent quality service is provided and that LFUCG funds are spent for the best services.

Lack of Systematic Approach in Selecting Contracted Work

The audit found no evidence of a systematic selection process to determine which properties should be contracted out and which should be mowed internally. We discussed this with Division senior management and were informed there were no specific guidelines in place to assist in making this decision.

Mowing by outside contractors constitutes a significant expense to LFUCG. Analyses should be performed on all LFUCG properties to systematically determine the most efficient means for mowing the property on a cost effective basis. Once developed, this process would be an important tool in the Division's strategic plan regarding personnel, equipment, and overall budgeting requirements.

Allendale Drive

One of the items brought to our attention during the audit was questionable mowing activity on Allendale Drive. This property is 3.27 acres in size. It is very flat, with a small stream running across the lower third and a creek running along one side. Contractor A bid \$850 per cut and was awarded the contract for this property. Contractor B complained that Contractor A (who underbid Contractor B) was not mowing the area in the manner in which Contractor B was asked to base his quote price upon. I contacted Contractor B to discuss this complaint. He explained that he had based his quote on Employee A's statements that both sides of the creek running along one side of the property would have to be weeded with each cut. He also stated Employee A informed him he would not have to mow the lower third of the property behind the stream.

We visited this property and noted the lower third did not appear to have been cut this year. Weeds along the creek were very high, also indicating no mowing in that area this year. Our observation essentially confirmed that Contractor A has been mowing approximately two acres of flat land for \$850 per cut. Contractor A has billed us and been paid three times for work performed at Allendale Drive this summer.

This incident illustrates the results of not having a systematic approach to monitor contractor mowing activity and to hold them accountable for quality of work. It illustrates the results of not providing written instructions or detailed schematics to contractors informing them of specific performance standards. In addition, assuming the only mowing requirement is to cut two acres of flat land (which would probably take no more than two hours), it illustrates the effects of not having a systematic and cost effective approach to assigning properties to contractors when the work might have been performed internally at a substantially lower cost.

Perhaps of greatest concern is that this incident gives the appearance of favoritism towards a specific contractor. During Fiscal Year 2003 Contractor A received payments totaling \$186,930, representing 57% of the total payments made to the top three mowing contractors. Proper documentation and oversight of contractor mowing activities, coupled with a systematic method for assigning mowing contracts on a cost efficient basis, would remove any unfavorable impressions such activity might create.

Lack of Systematic Approach in the Internal Assignment of Mowing Activity

The audit found no evidence of a systematic process to ensure the efficient and effective mowing of properties by Property Management mowing crews. We discussed this with Division senior

management and were informed there were no specific guidelines in place to assist in making this decision.

Mowing by Property Management crews constitutes a significant expense to LFUCG. Analyses should be performed on all LFUCG properties to systematically determine the most efficient means for assigning internal mowing crews to various properties on a cost effective basis. This should include a review of work assignment procedures for Division equipment and personnel. Once developed, this process would be an important tool in the Division's strategic plan regarding personnel, equipment, and overall budgeting requirements.

TMA Program Underutilized

The TMA Program is a data base program that has the ability to generate reports based on data input from work orders, work hours, inventory, etc. This program is being used by Property Management, but is not being effectively utilized in the area of grounds maintenance. Only four Work Order Numbers were assigned for an entire season of mowing. This does not provide the information necessary to analyze and manage costs associated with mowing activity, nor does it provide for the generation of any meaningful reports. Moreover, the absence of such detail costing severely limits management's ability to measure the benefits of internal versus contracted mowing services. In addition, the Division's store room inventory is maintained entirely on Excel spreadsheets. Issues with the initial set up of the TMA Program and the need for training have apparently contributed to its underutilization.

The Property Management TMA Program should be re-designed with the latest software updates to provide detailed costing information of all mowing activity on a location by location basis. The TMA Program should also be set up to track store room inventory activity. Increased TMA training of qualified personnel and benchmarking with other LFUCG Divisions who have successfully integrated TMA into their system of information management should also be pursued.

Backdated Bids

It appears two bids were back dated in order to provide required documentation for a FEMA reimbursement of \$850 in ice storm clean up costs. The clean up work was conducted by Contractor C on April 10, 2003. Located within a series of related documents stapled together was a post-it note dated April 16 highlighting the name Contractor C, and indicating that two more quotes were needed from contractors to obtain FEMA reimbursement. This note stated that Employee A would provide the two other quotes. Another post-it note dated April 21 stated Employee A was getting a new quote from Contractor B. The two additional quotes needed to provide the required documentation were received from Contractor B (indicating a new quote) and Contractor A, both dated April 8. These bid dates contradict the post-it note dated April 16 indicating two quotes were still needed, and the April 21 post-it note stating Employee A was getting a new quote from Contractor B.

While the performance of the clean up work and related payment are not in question, the anomaly described above does not appear to qualify for FEMA reimbursement because the bid activity represents an alteration of normal procedures and a violation of LFUCG local procurement requirements. It further demonstrates the need for standard procedures and sufficient oversight regarding appropriate and timely documentation of activity with outside contractors.

Incorrect Ice Storm Costs Prepared for FEMA

Property Management had significant equipment usage during the 2003 ice storm clean up program. The Finance Department requested an activity report listing detailed information regarding this usage, with the intent being to submit it to FEMA for reimbursement of associated costs. We were told by Finance Department personnel they would have to recreate this information from source documents because they had discovered significant errors in the Property Management report. Currently, no requests for reimbursement have been submitted to FEMA.

We compared the information on the first page of Property Management's six page activity report to related Daily Work Sheets and detected several significant discrepancies. See Attachment II for details. The nature and extent of the errors noted on the first page alone indicates a lack of due professional care that would have resulted in an erroneous request for federal reimbursement. We also noted that prior to February 15, 2003 the Daily Work Sheets prepared by one of the crew supervisors did not contain any references to equipment use, although such use undoubtedly occurred. The absence of reported equipment use on Daily Work Sheets prevents the analysis of equipment activity and its benefits to LFUCG.

It is recommended due professional care be exercised in the preparation of all reports provided to management, with particular care being exercised for any reports prepared for federal government reimbursement requests. It is also recommended Daily Work Sheets be fully completed on an accurate and timely basis to provide meaningful data on labor and equipment activity, and that this information be entered into a properly designed TMA program database for the preparation of labor and equipment use reports.

Mowing of Private Property

We coordinated with Human Resources to interview several LFUCG employees regarding allegations Property Management has been mowing and cleaning up debris for private property owners. While the allegations were generally unverifiable, we did determine that LFUCG is mowing private property belonging to a cemetery. In addition, a review of the Property Management files noted some LFUCG memos with varying dates stating the mowing of specific private properties had occurred and instructing it to cease.

No conclusive evidence exists to demonstrate the mowing of private properties at various intervals was intentional in nature. The most evident conclusion to be reached is that while the mowing of private property has occurred and still occurs, it may generally be the result of an incomplete current listing of LFUCG properties. It is recommended that a complete list of properties currently owned by LFUCG be developed and provided to appropriate Property Management personnel. This list should then be updated regularly to reflect transactions that would affect the Division's mowing responsibilities. Mowing activity conducted by Property Management personnel should also be concisely reported on a timely basis to management personnel responsible for ensuring the properties are exclusively owned by LFUCG.

Management Response to Findings

Management Response to Findings: Commissioner of General Services

General Comment: The Division of Property Management was created 12 years ago subsequent to then Commissioner Fred Hynson's recommendation that efficiencies could be gained by consolidating certain functions in a new division. For the most part the division has served the government well. As has happened in other areas of government, the Division has not kept up with technological tools for tracking work and evaluating costs leaving them open to charges of poor management.

This internal audit has uncovered several areas where we need better management tools for evaluating the efficiencies gained and public benefits provided by the Division of Property Management. We will evaluate and redesign our management systems to provide for accountability for personnel, costs, time, and equipment. Once we can attach expenses to functions, projects and problems, we can assess ways that the division can function more effectively and look for restructuring opportunities that will increase that functionality even more.

Response to Specific Findings

Systems Issues:

1. Lack of Management Oversight of Contractor Mowing: Jack Lucas, in consultation with Allen Laughlin and his staff, will develop a comprehensive plan for:

- 1.) Evaluating the work of contract mowers,
- 2.) Deciding which properties are mowed by LFUCG v. contract labor,
- 3.) Analyzing the costs associated with both LFUCG mowing and contract mowing, and
- 4.) Determining where assignments should be shifted from one group to another to gain efficiencies.

Included in the data base will be a listing of all mowing that occurs on private property in the interest of keeping public rights-of-ways open and accessible.

2. Lack of Systematic Approach in Selecting Contract Work: As per Mr. Lucas's response, the Division is plotting all properties maintained by LFUCG either by our staff or through contract labor. A systematic approach will be developed and an evaluation will be made on an annual basis to determine the most efficient way to bid properties.

Jack Lucas, in consultation with Jonathan Johnson and his staff, will do the same assessment of the custodial services sector. Tim Clark will act as a technology consultant for the division since both of these functions will require a data-base system designed to serve as a management tool that will allow this evaluation to continue on a regular basis.

3. Allendale Drive: The questionable payment at Allendale Drive is a result of a lack of managerial systems for monitoring contract mowing. It may be an isolated example; however, we have no way of knowing since other contract properties are monitored the same way. Part of the new system will put checks and balances in place so that we can say with confidence that a contractor is fulfilling the requirements of the bid before we approve the payment of an invoice.

4. TMA Program Underutilized: We will investigate further whether TMA can be adapted to provide the management tool we need. The benefit of TMA is we already own it and we have some internal expertise using it. The disadvantage is that the program is written to manage work-order driven operations. Mowing is not a work-order driven activity. Jack Lucas and his staff will investigate alternatives and make a recommendation. Regardless of the result, staff will need to be trained to use the tool.

5. Incorrect Ice Storm Costs Prepared for FEMA: Systems were not in place when the ice storm hit for matching equipment with operators and hours. There is no way those systems could be developed during a crisis; therefore, the information was pieced together after the fact. The ice storm/FEMA situation serves to highlight the need for updated processes and accountability in the Property Management Division.

6. Mowing of Private Property: This is monitored regularly and evaluated periodically. There are certain rights-of-way that are maintained by LFUCG even though they are technically private property. The new system will identify these and they will become part of our annual review. If there is no longer a public interest in maintaining these rights-of-way, then the owner will be notified that responsibility for maintenance will shift to them. The shifting of responsibility to the property owner will require the support of code enforcement, the administration and the Council.

Personnel Issues:

1. Inappropriate Use of LFUCG Time and Equipment: Since Employee A was spoken to twice (coaching and counseling 6/27/03 & 7/3/03) about this matter prior to the audit, he will receive a written reprimand and his computer use will be monitored. The games will be removed from Employee B's computer and she will receive coaching and counseling regarding legitimate computer and equipment use. All PM employees will be reminded of the policies regarding computer, digital camera and other equipment

use. Random checks will be done throughout the division to assure that the policies are being followed.

No action will be taken on the community service part of the finding. We want to encourage our employees to work in community service organizations. The time Employee A was giving to this group was neither excessive nor inappropriate.

2. Backdated Bids: This looks to be more a lack of communication than a lack of process and it is difficult to know who is at fault. The paper flow of the office will be examined for ways to improve communication. Employee A and Employee C will receive a coaching and counseling reminder of the proper procedures to follow before submitting bids. Should purchasing have problems in the future with bids coming in without the necessary number of quotes, the employees involved will receive progressive discipline.

Action Plan:

Systems Issues: Both the internal audit and the ice storm point to some problems in the systems that are currently utilized in the Division of Property Management. Lack of work flow integration, minimal cost analysis of the various functions, and manual tracking of data leave the Division open to charges of poor management and lack of accountability.

The Division will spend the next six months engaged in identifying and implementing new systems to address these issues. The results will include:

- 1.) Technology-based managerial tools for tracking large amounts of data.
- 2.) A systematic approach for decision-making based on cost/benefit analysis.
- 3.) An automated time keeping method for the monitoring of work hours.
- 4.) Workflow analysis that will produce accountability standards.
- 5.) Accessible databases, multiple sign offs, and checks and balances in systems to create more transparent communications between supervisors and those they supervise.
- 6.) Plans for training employees on the new systems.

Personnel Issues: The evaluation of work processes will include an assessment of managerial responsibilities. When, as in the case of Employee A, an employee has time during their forty-hour week to work on non-LFUCG activities they either are not doing their job or their job is not a forty-hour a week job. The former should show up in performance evaluations; the latter may present an opportunity, as retirements and attrition occur, to downsize the managerial staff of the Division and consolidate oversight responsibilities.

The full implementation of TMA or another work tracking system should more fully utilize Employee B's abilities and technological aptitudes. However, in the clerical area also, we should investigate potential savings in personnel costs derived from more sophisticated, integrated machinery.

In reviewing the material that spawned the Division of Property Management in the first place, citizen volunteer recruitment, organization and management is mentioned

repeatedly. Re-energizing this part of the division's mission may provide a means to filling gaps in employee's schedules and provide a public service as well.

PROPERTY MANAGEMENT AUDIT
REVIEW OF EMPLOYEE A NON-LFUCG WORK ON COMPUTER

Attachment I

<u>DAY OF USE</u>	<u>DATE OF USE</u>	<u>TIME OF USE</u>	<u>PAY PERIOD ENDING</u>	<u>COMP HRS. EARNED</u>	<u>COMP HRS. USED</u>
FRIDAY	9/6/2002	12:11 PM	9/8/2002	0.5	
FRIDAY	9/6/2002	4:19 PM	9/8/2002		
WEDNESDAY	9/11/2002	2:02 PM	9/22/2002	0.7	
WEDNESDAY	9/18/2002	1:51 PM	9/22/2002		
THURSDAY	9/26/2002	2:50 PM	10/6/2002	0	2.3
MONDAY	10/21/2002	1:53 PM	11/3/2002	0	
WEDNESDAY	11/13/2002	4:05 PM	11/17/2002	0	
TUESDAY	12/17/2002	10:38 AM	12/29/2002	0	
THURSDAY	12/19/2002	10:07 AM	12/29/2002		
THURSDAY	12/19/2002	11:51 AM	12/29/2002		
MONDAY	12/23/2002	12:55 PM	12/29/2002		
FRIDAY	1/17/2003	4:08 PM	1/26/2003	0	
MONDAY	2/3/2003	10:22 AM	2/9/2003	0	
WEDNESDAY	2/5/2003	11:20 AM	2/9/2003		
WEDNESDAY	2/5/2003	11:28 AM	2/9/2003		
WEDNESDAY	2/19/2003	9:45 AM	2/23/2003	28.5	
WEDNESDAY	2/19/2003	3:28 PM	2/23/2003		
FRIDAY	2/28/2003	12:03 PM	3/9/2003	4.1	1.1
FRIDAY	2/28/2003	12:13 PM	3/9/2003		
FRIDAY	2/28/2003	12:17 PM	3/9/2003		
THURSDAY	3/6/2003	9:13 AM	3/9/2003		
MONDAY	3/10/2003	11:35 AM	3/23/2003	4.5	
TUESDAY	3/11/2003	11:07 AM	3/23/2003		
WEDNESDAY	3/19/2003	10:14 AM	3/23/2003		
THURSDAY	3/20/2003	1:53 PM	3/23/2003		
THURSDAY	3/20/2003	2:20 PM	3/23/2003		
THURSDAY	3/20/2003	3:47 PM	3/23/2003		
FRIDAY	4/4/2003	6:23 PM	4/6/2003		24
FRIDAY	4/4/2003	6:28 PM	4/6/2003		
THURSDAY	4/10/2003	11:35 AM	4/20/2003		7
THURSDAY	4/10/2003	2:06 PM	4/20/2003		
FRIDAY	4/11/2003	8:26 AM	4/20/2003		
FRIDAY	4/11/2003	8:28 AM	4/20/2003		
WEDNESDAY	4/16/2003	2:21 PM	4/20/2003		
THURSDAY	4/29/2003	1:13 PM	5/4/2003	5.6	
TUESDAY	4/29/2003	1:23 PM	5/4/2003		
FRIDAY	5/2/2003	4:31 PM	5/4/2003		
FRIDAY	5/9/2003	1:11 PM	5/18/2003	2	8.5
FRIDAY	5/23/2003	4:13 PM	6/1/2003	0	
THURSDAY	6/5/2003	4:08 PM	6/15/2003		3.5
MONDAY	6/30/2003	9:02 AM	7/13/2003	0	
MONDAY	6/30/2003	9:37 AM	7/13/2003		
TUESDAY	7/1/2003	12:33 PM	7/13/2003		
THURSDAY	7/3/2003	1:44 PM	7/13/2003		
THURSDAY	7/3/2003	2:07 PM	7/13/2003		
THURSDAY	7/3/2003	2:13 PM	7/13/2003		
THURSDAY	7/3/2003	2:14 PM	7/13/2003		
FRIDAY	7/11/2003	1:39 PM	7/13/2003		
TUESDAY	7/15/2003	4:05 PM	7/27/2003	0	

PROPERTY MANAGEMENT AUDIT
REVIEW OF EMPLOYEE A NON-LFUCG WORK ON COMPUTER

Attachment I Cont.

<u>DAY OF USE</u>	<u>DATE OF USE</u>	<u>TIME OF USE</u>	<u>PAY PERIOD ENDING</u>	<u>COMP HRS.</u> <u>EARNED</u>	<u>COMP HRS</u> <u>USED</u>
THURSDAY	7/31/2003	1:44 PM	8/10/2003	0	
THURSDAY	7/31/2003	1:48 PM	8/10/2003		
THURSDAY	7/31/2003	2:05 PM	8/10/2003		
THURSDAY	7/31/2003	2:06 PM	8/10/2003		
THURSDAY	7/31/2003	2:10 PM	8/10/2003		
THURSDAY	7/31/2003	2:14 PM	8/10/2003		
THURSDAY	7/31/2003	2:36 PM	8/10/2003		
THURSDAY	7/31/2003	3:06 PM	8/10/2003		
THURSDAY	7/31/2003	3:09 PM	8/10/2003		
THURSDAY	7/31/2003	3:11 PM	8/10/2003		
MONDAY	8/4/2003	2:38 PM	8/10/2003		
MONDAY	8/4/2003	2:40 PM	8/10/2003		
FRIDAY	8/22/2003	2:50 PM	8/24/2003		0.5
THURSDAY	9/4/2003	3:02 PM	9/7/2003	2.1	
WEDNESDAY	9/17/2003	9:45 AM	9/21/2003	3	
FRIDAY	9/19/2003	5:18 PM	9/21/2003		

Note: Shading is provided to segregate activity dates.

PROPERTY MANAGEMENT AUDIT
COMPARISON OF FEMA REPORT TO RELATED SUPPORT DOCUMENTS

Attachment II

<u>DATE</u>	ACTIVITY PER FEMA COST REPORT	ACTIVITY PER DETAIL WORK REPORT
2/18-2/21/03	Lists a skid loader operated by Mr. C but does not provide number of hours operated.	Indicates a skid loader operated by Mr. C and provided hours of operation.
02/19/03	Mr. M listed as working ten hours on Crew Cab Pickup with a 12 hour day.	Mr. M had three hour physical leaving only nine hours available for actual work.
02/19/03	Lists 11 pieces of equipment used. Three equipment types do not match Detail Work Report.	Lists 12 pieces of equipment. Three equipment types do not match FEMA Report.
02/20/03	Makes no mention of Mr. J operating a pickup truck.	Indicates Mr. J was assigned to a pickup truck.
02/21/03	Makes no mention of Mr. J operating a pickup truck.	Indicates Mr. J was assigned to a pickup truck.
02/21/03	Requests five hours reimbursement for Mr. W.	Shows Mr. W working 12 hour day. The individual work record indicates he only worked seven hours.
02/22/03	Shows Mr. W working five hours operating a dump truck.	Does not indicate any equipment assigned to Mr. W.