

2. REPORTS RECEIVED FOR FILING:

- a. Division of Inspector General, Clerk of the Circuit Court and Comptroller, Report No. 2014-34 dated November 13, 2014 – Audit of Fort De Soto Park Operations & Internal Controls.
- b. Division of Inspector General, Clerk of the Circuit Court and Comptroller, Report No. 2014-36 dated November 20, 2014 – Audit of Multiple Award Service Contracts for Motor & Pump Repairs.



DIVISION OF INSPECTOR GENERAL

KEN BURKE, CPA

**CLERK OF THE CIRCUIT COURT AND COMPTROLLER
PINELLAS COUNTY, FLORIDA**

AUDIT OF MULTIPLE AWARD SERVICE CONTRACTS FOR MOTOR & PUMP REPAIRS



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Inspectors General**

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**NOVEMBER 20, 2014
REPORT NO. 2014-36**



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November 20, 2014

The Honorable Chairman and Members of the Board of County Commissioners

We have conducted an audit of the Multiple Award Service Contracts for Motor & Pump Repairs.

Our audit objectives were to:

- Determine if there are adequate internal controls for repair service contracts.
- Determine if procedures provide reasonable assurance repairs are completed properly and paid according to the contract.

We conclude that overall there were weak internal controls related to administration and invoices review for repair service contracts. We did find that the procedures were adequate to provide reasonable assurance repairs were completed properly. However, we determined that almost all the vendor's repair invoices reviewed did not comply with the county contract, but were still approved and paid. We could not determine from the invoices and supporting documentation supplied that the number of labor hours, the labor rate or part prices agree with the county contract. Likewise, with the lack of proper invoice cost pricing documentation, we could not determine that there are no recoverable cost adjustments related to the paid invoices. Opportunities for improvement are presented in this report.

We appreciate the cooperation shown by the staff of the Department of Environment & Infrastructure during the course of this review. We commend management for their responses to our recommendations.

Respectfully Submitted,

Hector Collazo Jr.
Inspector General/Chief Audit Executive

Approved:

Ken Burke, CPA*
Clerk of the Circuit Court and Comptroller
Ex Officio County Auditor
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INTRODUCTION

Synopsis

County contracts must specifically communicate how we expect suppliers to invoice us for the contracted goods and services. Contract compliance requirements for proper invoicing should be defined, explained, and illustrated.

Scope and Methodology

We have conducted an audit of the Multiple Award Service Contracts for Motor & Pump Repair for the Department of Environment & Infrastructure (DEI) Water & Sewer Division as the primary user. Our review focused on contract services from John Mader Enterprises dba Mader Electric Motors Inc. Other servicers were included in the contracts.

Our audit covered the responsibilities of both Mader Electric Motors Inc. and the County as contained in the agreement. We also reviewed DEI compliance with any applicable policies, plans, procedures, and laws regarding this process.

The objectives of the audit were to:

- Determine if there are adequate internal controls for repair service contracts.
- Determine if procedures provide reasonable assurance repairs are completed properly and paid according to the contract.

In order to meet the objectives of the audit we:

- Interviewed DEI management and staff to understand the processes and procedures related to ordering, monitoring, and paying for contract services.
- Evaluated the adequacy of these policies and procedures, as well as the internal controls.
- Tested, on a sample basis, the payments to Mader Electric Motors Inc. as related to the provisions of this agreement.

We performed such other audit procedures that we considered necessary in the circumstances.

Our audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and the *Principles and Standards for Offices of Inspector General*, and accordingly, included such tests of records and other auditing procedures as we considered necessary in the circumstances. The audit period was October 1, 2011 through

February 28, 2013. However, transactions and processes reviewed will not be limited to the audit period.

Overall Conclusion

We determined that overall there were weak internal controls related to administration and voucher review for repair service contracts. We did find that the procedures were adequate to provide reasonable assurance repairs were completed properly. However, we determined that almost all the vendor's repair invoices did not comply with the contract, but were still approved and paid. We could not determine from the invoices and supporting documentation supplied that the number of labor hours, the labor rate, or part prices agree with the contract. Likewise, with the lack of proper invoice cost pricing documentation, we could not determine that there are no recoverable cost adjustments related to the paid invoices.

Action Plan

FINDING NO.	FINDING (CAPTION) RECOMMENDATIONS	MANAGEMENT RESPONSES			IMPLEMENTATION STATUS	
		Concur	Partially Concur	Do Not Concur	In Progress	Planned
1	Department Management Was Not Properly Adminstrating The Contracts.					
	Review and adhere to their contract administration processes and responsibilities for the administration over the proper payment of invoices at contract prices, as required by BCC Purchasing Policies & Procedures.	✓			✓	
2	Department Review and Approval Of Contractor Invoices Have Internal Control Weaknesses.					
	A. Work with the Purchasing Department and the vendors to determine what documentation is available and required to be provided for the invoice billing process. Amendments to the contract and/or example for invoices may be required for billings.	✓			✓	
	B. Assess the department's review and approval processes to assure that parts and labor are received and billed correctly per the contract specifications.	✓			✓	
3	Finance Accounts Payable Pre-Audit of Invoices Did Not Detect Some Of The Errors In The Vendor Invoices Submitted For Payment.					
	A. Ensures their reviews of invoices are preformed and comply with contract terms and rates.	✓			✓	
	B. Timely reporting of invoice issues to the Department Contract Administrator.	✓			✓	

Introduction
Multiple Award Service Contracts for Motor & Pump Repair Audit

FINDING NO.	FINDING (CAPTION) RECOMMENDATIONS	MANAGEMENT RESPONSES			IMPLEMENTATION STATUS	
		Concur	Partially Concur	Do Not Concur	In Progress	Planned
4	<i>Finance Accounts Payable Pre-Audit Invoice Policy And Procedures Needs To Be Updated.</i>					
	A. Update their policies and procedures for the Pre-Audit responsibilities of Finance Accounts Payable and the originating department. The policies should clearly spell out responsibilities for reviewing and approving invoices by the originating department and Finance.	✓			✓	
	B. Train staff to ensure their understanding of how to perform all the Pre-Audit checks as required in the updated policies and procedures.	✓				✓
5	<i>The Current Maximo Application Functions Do Not Support Department Needs.</i>					
	Continue working on choosing a new Enterprise Asset Management (EAM) system. There is still a risk that the EAM system will not provide enough detail information to help DEI department management with repair/replacement decisions. Spreadsheets may still have to be used to support the process.	✓			✓	

Background

We selected one supplier (John Mader Enterprises, Inc.) that was party to multiple award contracts for Pumps, Parts and Repair, and Motor Rewinding and Repair services. The services supplied by the contractors were mainly used by DEI Water and Sewer Division. The contracts are critical to the DEI wastewater systems operations.

Purchasing Policies and Procedures provide for splitting a contract between two or more suppliers. A multiple award contract is used when the same generic types of services are required, but the award to a single supplier would be impractical or fail to satisfy the total requirements of the services required. In this case, we looked at multiple award contracts for repair/replacement of pumps and electric motors.

The contracts covered in the Audit Scope are:

- The Pumps, Parts and Repair Contract (078-04595 [SS]) was awarded January 6, 2009. The total estimated annual expenditures were not to exceed \$669,000 annually. The annual contract provided for three additional twelve-month options under the same terms and conditions, but did allow for a price adjustment. The price adjustments were based on changes in the Producer Price Index that are capped at 5 and 6 percent. The contract expired on April 5, 2013.

Contract Suppliers:

- Carl Eric Johnson Inc.
 - John Mader Enterprise Inc.
 - ITT Water & Wastewater Florida LLC
 - Regional Engineering & Service Inc.
 - Tampa Armature Works Inc.
- A new Pumps, Parts, and Repair Contract (123-0146-B [LN]) went out for bid March 6, 2013, responses were due April 4, 2013, and the contract was awarded July 6, 2013 for two years, total estimated annual expenditures were not to exceed \$850,000.

Contract Suppliers:

- John Mader Enterprises Inc
- Regional Engineering & Services Inc.
- Tampa Armature Works Inc.

The contract includes 24 different pump manufacturers, and was awarded to contractor(s) who are Original Equipment Manufacturer authorized repair centers and the lowest responsible competitive costs per bid tabulation.

Multiple Award Service Contracts for Motor & Pump Repair Audit

- The Motor Rewinding and Repair Contract (101-0051-B [RM]) was awarded March 9, 2011. The total estimated annual expenditures were not to exceed \$375,000 for three years.

Contract Suppliers:

- Gemini Enterprise of South Florida Inc.
- John Mader Enterprise Inc.

OPPORTUNITIES FOR IMPROVEMENT

Our audit disclosed certain policies, procedures, and practices that could be improved. Our audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the Opportunities for Improvement presented in this report may not be all-inclusive of areas where improvement may be needed.

1. Department Management Was Not Properly Administering The Contracts.

The Department's Contract Administration did not assure that vendor invoices complied with the contract requirements. This resulted in invoices not agreeing with the contract terms. The following deviations were noted in our testing:

- A. The contracts do not explicitly say that the invoice must have line item breakdowns for parts and labor. However, the pricing structure in the contract requires it. If your contract terms provide for labor to be paid by the hour, based on normal business hours, outside business hours or holidays, then lump sum billing does not comply with contract specifications.
- B. One invoice was described as a *rush job*; the contract does not use "Rush Job" as a description, but it is addressed as "public emergency." The pricing structure addresses the fees for Emergency Hours for Shop Labor & Field Labor Rates. Public emergency jobs should have had labor rates charged as described in the contract. There should have been documentation to show the labor hours and rates in accordance with the contract specifications. The labor should be detailed by day, time, and employee, and correspond with the vendor's pickup and delivery dates of the repaired pump.
- C. Our review of the invoices could not determine the labor rates since invoice line item descriptions did not match the descriptions of contract labor rates. The description did not show labor according to any of the contract categories of Shop Labor, Field Labor, Emergency Shop Labor, Emergency Field Labor, Labor Rate I, Labor Rate II, or Labor Rate III.
- D. For parts, the contract sets the price as Manufacturer Suggested Retail Price (MSRP) with a percentage discount or a cost plus mark up percentage; therefore, lump sum pricing does not comply with contract specifications. Furthermore, invoices did not follow the contract terms for pricing parts.
- E. Each contract provides a pricing structure to calculate part prices. In one invoice dated May 30, 2012, we found a credit for \$317.08 with no supporting documentation. We determined that DEI negotiated a credit directly with the vendor for a part on a previous invoice dated December 19, 2011. This invoice was for ABS mixer pump EZ Fit cable assembly, 60' cord length Part #43025377 for \$631.08. There was no supporting documentation showing that the price of this part was correctly calculated. The

department did not verify that the price was correct however, management *felt* the price was too high for the part and negotiated a 50% reduction in price. The vendor should have been requested to provide supporting documentation. There are no provisions in the contract that allow a department to renegotiate contract prices.

- F. The current Pump, Parts and Repair contract #123-0146-B provides for an *18-month warranty* from time of repair. The previous contract #078-0459-B did not specify a warranty period, but since all the suppliers were OEM (Original Equipment Manufacturer) Authorized by the pump manufacturers, the manufacturer's 12-month warranty was used. In our review, we found invoices for rebuilding the same pump for February 2012 and then again less than 10 months later in November 2012. We found no supporting documentation regarding a warranty claim from either the department or vendor. Currently, warranty periods for major repairs are not set up in Maximo for the department to track (The option to retain this information is not available in the Maximo Application). The Department expected the vendor to track the warranty period on their repair records. We found no information on whether the repair qualified under the warranty or if the County caused the problem. Proper invoices should list quantities, descriptions and line totals. If the pump is rebuilt and/or under warranty, that information should also be present on the invoice.

The Board of County Commissioners adopted Purchasing, Policy & Procedures, which provide for the originating department to administer the contract with the assistance of the Purchasing Department. It is the responsibility of the originating department/officer to take the necessary steps to ensure implementation of the contracts with which they are involved. These contracts should be continually monitored for compliance with contract terms and conditions. The policy and procedures require the department to ensure the proper payment of invoices on time and at contract price.

Purchasing Policies & Procedures, Section 9.14, Administration, instructs the originating department to:

"Questions of interpretation and resolution of perceived potential or present problems in such contracts will be referred to the appropriate reviewing authorities for consideration."

The department did not follow contract administration procedures for calculating the price.

Contract administration for the departments did not ensure that the invoices being accepted from the vendors complied with the contract terms. The departments did not take responsibility or refer the issues to Purchasing to work with the vendors to ensure invoices properly reflected the contract pricing.

- The repair charges for parts and labor could not be verified by the departments in accordance with the contract.
- The parts invoiced did not show calculations prescribed in the contract.
- The correct labor rates cannot be determined since invoice line item descriptions do not match descriptions of contract labor rates.

In the INVOICE INFORMATION section for the most recent contract #123-0146-B, Pumps Parts & Repairs, there is more specific contract language on what a proper invoice should contain.

In Section 26. Payment/Invoices: SUPPLIER shall submit invoices for payment due as provided herein with such documentation as required by Pinellas County... Later in that section under INVOICE INFORMATION, it lists that Quantity, Description, Unit Price, Line Total, and Invoice Total as required fields. The definition of Invoice Total is the Sum of all of the line totals for the invoice.

There is not a field listed or described as lump sum.

We discussed these issues with the County's Purchasing Department (Purchasing) and requested their assistance. Purchasing has started working with the department and vendors on invoice calculations and supporting documentation. An agreement on the interpretation of contract pricing should be accomplished without a contract amendment.

We recommend DEI management:

Review and adhere to their contract administration processes and responsibilities for the administration over the proper payment of invoices at contract prices, as required by BCC Purchasing Policies & Procedures.

Management Response:

Management concurs. Utilities administrative and supervisory staff concurs with this finding and have met with Purchasing and Clerk Finance to review current contract requirements and initiate business practices for review and approval of repair estimates. It was denoted during this review that the facilities do not have contracts administration staff and rely on field supervisors to review repair quotes. It was also denoted that current business practices related to Oracle and the Clerk's Finance office have systemic issues by having vendors submit their invoices directly to the Clerk's Finance office for payment without the user department receiving the invoice for review of contract specification compliance and approval prior to submittal for payment. This business process warrants evaluation to determine best business practices.

2. Department Review and Approval Of Contractor Invoices Have Internal Control Weaknesses.

Departments (DEI Water and Sewer Division, Wastewater Treatment Facilities) are not performing their review and approval responsibilities to verify that parts and labor are received and billed correctly. In our testing of invoices, we found:

- Part costs were not billed at cost plus 15% markup or at MSRP discount percentages, as applicable.
- Labor billed at a non-contract rate.
- Labor billed as lump sum rather than by hour.
- Labor billed separately to repair shaft when the rebuild service includes furnish and install new shaft.
- Charged a separate freight charge for a part.

We reviewed 20 out of 22 invoices for the selected initial vendor (John Mader Enterprise, Inc.) and found that the payment terms for the Electric Motor Rewinding & Repair Service Contract and the Pumps, Parts & Repair contracts did not comply with the contract pricing for repairs for the initial vendor selected. Additional invoices from other vendors were also selected for review to determine if the problems were related to one vendor or contract administration issues. The same problems were found in the additional sample of nine invoices from four of the five other vendors. One vendor, Regional Engineering, did comply with invoicing us at cost plus 15% markup and supplied adequate documentation for the part costs. The invoices reviewed and the issues found are listed in Attachment A.

We reviewed the contract pricing structure found in the contracts against the invoicing problems found.

- A. **Cost Plus Percentage Pricing** - A cost plus percentage price clause in a contract is usually defined as the amount that the vendor pays for and can document the price for the pump/part and adds an agreed upon percentage mark-up for vendor profit.
1. The first internal control weakness is the pricing; you must rely on the vendor to document their cost. You should be requiring the vendor to supply an inventory listing of parts and their cost. In order to verify the cost, you will also need the vendor's supplier invoice and applicable vendor check payment for each part itemized on the invoice. The vendor may have acquired the parts at various times from different suppliers, which would add to the complexity of finding supplier invoices to prove that the cost is what the vendors paid. Once you have obtained the cost information, each invoice line item amount will need to be checked and the mark-up recalculated. The administrative burden for invoicing is increased for both the vendor and the County.
 2. A second internal control weakness is in the inherent definition of cost. Cost accounting provides a vast array of methods to calculate inventory costs. Cost could include indirect costs such as freight, storage, labor, utilities, borrowing costs, rent, insurance, obsolescence, security, and many other administrative costs. Since the vendor earns a percentage of the cost, the higher the vendor increases their cost, the higher mark-up they will earn. There is no incentive for the vendor to hold down costs.
- B. **MSRP Percentage Discount Pricing** - A percentage discount off MSRP pricing clause works well in contracts where the products manufacturer suggested retail prices are openly published by the manufacturer for retail consumers. Manufacturer

prices for electric motors and parts were not found to be readily available on the internet. We are buying industrial electric motors and parts from large suppliers above the usual consumer retail level. In addition, the County has many different manufacturers of equipment in service. This becomes an administrative burden for invoicing for both the vendor and the County.

- C. Labor Hours and Rates - The labor hours are usually invoiced as one line item listing several activities, which most likely involved more than one person. It was also noted that the estimated hours always equaled the actual hours billed. A red flag should have popped up to the reviewers and approvers that multiple employees engaging in multiple tasks always hit the hour estimate exactly. In both contracts, we also have higher labor rates for hours worked outside of normal business hours or at our location. The labor rate terms defined in the contract, such as "Labor Rate I", were never used on the invoices. In order to verify that the worker's hours were outside of normal business, a reconciliation of time cards would need to be performed.
1. The internal control weakness is that if we want to verify labor hours, we would rely on the vendor to provide that information. To verify the hours worked, you would need the payroll time cards and paychecks, which again would be an administrative burden to verify. There would still be the risk that the people worked on other jobs, but charged the time to the County work order. Unless there is an estimating guide, like Mitchell or Chilton for automotive repairs, it is hard to know if even the number of labor hours is reasonable.
 2. Another internal control weakness is to use prior experience to judge reasonableness, if the experience is based only upon what we have been charged previously. Experience based on what other vendors charged for labor would be more appropriate to judge reasonableness.

The contract pricing structure for parts and labor will contribute to the problem in calculating and billing the correct amount as previously noted. What is required is to determine what the vendors can supply for billing documentation and then the departments need to work out procedures that let them perform their review and approval responsibilities to verify parts and labor are received and billed correctly.

Most vendors were simply preparing an invoice from their estimates. Management's review and approval was limited to comparing the estimate to the final invoice. The contract did not contain any examples to illustrate how to calculate prices and what supporting documentation should be provided to support the invoice charges. The invoice billing did not follow the contract pricing terms for parts and labor. Errors were present in the invoices that were not detected by the department review and approval process. The documentation supplied by the vendor was not adequate to confirm that the invoice prices were correct.

Departments have a responsibility to verify the accuracy, quantity, and quality of the repair services received from the vendor. The department shall not approve payment until the services are actually performed correctly by the vendor. This responsibility is explained in more

detail in the Purchasing Policy, Section 3.20, Receipt Of Commodities And Services. The department's review and approval of the invoice is a key control that Finance relies upon in the Pre-Audit process. The department's review and approval of the invoice communicates to Finance that the services were performed and invoiced according to the contract.

We recommend DEI management:

- A. Work with the Purchasing Department and the vendors to determine what documentation is available and required to be provided for the invoice billing process. Amendments to the contract and/or example for invoices may be required for billings.
- B. Assess the department's review and approval processes to assure that parts and labor are received and billed correctly per the contract specifications.

Management Response:

- A. Management concurs. Utilities administrative and supervisory staff concurs with this finding and have met with Purchasing staff to review current contract requirements and initiate business practices for review and approval of repair estimates. Purchasing has contacted each vendor and provided template criteria for itemizing services within contract specifications on work estimates provided to the user department for review and acceptance.
- B. Management concurs. Utilities administrative and supervisory staff concurs with this finding and have met with Purchasing staff to review current contract specifications and initiate internal business practices for review and approval of repair estimates.

3. Finance Accounts Payable Pre-Audit of Invoices Did Not Detect Some Of The Errors In The Vendor Invoices Submitted For Payment.

In reviewing the invoices tested with the Finance Division, we discussed the types of errors found in our samples that Finance should find in performing their Pre-Audit process. From our discussions, it was decided that the following errors should have been referred to the department:

- A. Labor billed as lump sum rather than by hourly rate. One invoice tested noted incorrectly billed labor as a \$350 lump sum rather than by the hour.
- B. Wrong labor rate of \$40 per hour charged. There is no \$40 rate on the price schedule.
- C. A correct labor rate could not be determined since invoice line item descriptions do not match the contract labor descriptions. The invoice line item description does not describe the labor according to the contract categories of Shop Labor, Field Labor, Emergency Shop Labor, or Emergency Field Labor Rate.

- D. Pump or Part cost calculation of a 15% markup is not shown on the invoice, so there is no support for the price charged.
- E. Repairs with parts and labor listed with no unit prices and only an invoice total.

The Finance Department's review is limited to what appears on the invoice and supporting documentation, which can be checked against the contract purchase order information. The departments supervising the repair, not Finance, determine any questionable costs for services that may not have been needed or not performed. Finance's Pre-Audit of invoices is the last check before payments are made. However, it appears that the problem begins with the vendor's estimate because it does not conform to the contract's pricing structure. The department supervisor or manager authorizes the repair by comparing the invoice to the estimate, rather than comparing it to the terms of the contract and the supporting documentation supplied.

The issue of Finance not reporting the invoice issues back to the departments seems to have been caused by the backlog of work created from the Oracle Financial System conversion in September 2011. The backlog and increased responsibilities has affected time available for the Finance Division to review contracts that are more than 30 pages long and being able to understand pricing schemes. Contributing to the problem are the initial vendor estimates that match the invoices, which distracts the Finance Division from further reviews of the contract.

Since Finance did not flag the deficiencies, as an independent second party, the departments were not notified of the invoice problems. Finance's Pre-Audit process did not detect the contract's non-compliance issues that could have caused the invoices to be initially rejected.

Please Note that the non-compliance with contract invoice requirements was caused by the department's lack of proper contract administration as noted in Opportunity for Improvement No. 1, and not caused by the Finance Pre-Audit function. Rejecting the vendor invoices after the service is rendered and the invoices have been approved by the department is not a proper result for the County contract invoice process. The contract's Dispute Resolution Invoice Payment section requires that the County notify the vendor within ten days of receipt of the invoice that the invoice is improper. The notice should indicate what steps the vendor should undertake to correct the problem. There could be a timing issue for the County rejecting the payment of invoices in the Finance Pre-Audit function. Department Contract Administration must address these issues before the Pre-Audit process.

The Accounts Payable Pre-Audit Policy states:

"The purpose is to provide consistent guidelines for the pre-audit and review of invoices and other requests for payment to vendors, employees and any other legal entity. All invoices presented for payment must have back-up documentation to substantiate basis for payment." The Pre-Audit steps also require, "Check extensions and totals on invoices against purchase order, master purchase order or field purchase order."

The extensions and totals refer to verifying the Quantity multiplied by the Unit Price equals the Line Total, and that the Invoice Total is the sum of all the line totals for the invoice. In summary, BCC Finance's guidelines for the Pre-Audit and review of invoices includes checking extensions and totals on invoices against the contract purchase order.

We recommend Finance Division management:

- A. Ensures their reviews of invoices are performed and comply with contract terms and rates.
- B. Timely reporting of invoice issues to the Department Contract Administrator.

Management Response:

A&B. Finance Division Accounts Payable Management Concurs. The oversight was a result of the backlog created by the Oracle Financial System conversion. Financial Accounts Payable is currently in compliance with approved procedures for contracts and responses to departments.

4. Finance Accounts Payable Pre-Audit Invoice Policy And Procedures Needs To Be Updated.

Finance provided us with the most current policy on Pre-Audit, which is dated March 12, 2011 and does not cover the Oracle Financial System. The Oracle Financial System was implemented in September 2011. Policies and procedures need to be updated to reflect the current Oracle Financial System.

The system conversion problems and the increased responsibilities have created such a heavy workload that has not allowed the time to update the policies and procedures. Without policies and procedures to provide direction on how to perform Pre-Audit checks, the reviews will not be consistent or cover areas that management feels are important.

Written policies and procedures serve as a basis for management planning, control, and evaluation of activities. They communicate management's expectations of timeliness, responsibility, authority, and restrictions. Additionally, a procedure manual serves as a guide for personnel in performance of daily operations and assistance in routine problem solving. These procedures can also provide standards for performance, and are useful in training new employees. Written procedures would be able to identify and provide information to solve routine processing problems and escalate corrective action to management.

We recommend Finance Division management:

- A. Update their policies and procedures for the Pre-Audit responsibilities of Finance Accounts Payable and the originating department. The policies should clearly spell out responsibilities for reviewing and approving invoices by the originating department and Finance.
- B. Train staff to ensure their understanding of how to perform all the Pre-Audit checks as required in the updated policies and procedures.

Management Response:

A&B. Finance Division Accounts Payable Management Concurs. The current Pre-Audit procedures are being updated for the new Oracle Financial System. The Inspector General recommendation will be included in the updated procedures.

5. The Current Maximo Application Functions Do Not Support Department Needs.

The current Maximo application does not have any particular report to assist management in making decisions for repair/replacement. Management has extracted different Maximo reports and asset expenditure information into spreadsheets, which is time consuming. They are not updated every year.

It is clear that the flexibility of spreadsheets being used in the current process sometimes come at a risk. It is important that management identify where control breakdowns could lead to potential material misstatements and application controls for significant spreadsheets be documented, evaluated and tested. (Testing of DEI Wastewater Facility Spreadsheets were not included in this audit scope.)

In the current Request for Proposal for the Enterprise Asset Management (EAM) system, there is a list of Success Indicators/Desired Outcomes, some of which are aimed at addressing this problem. EAM Success Indicators/Desired Outcomes Indicator 7 state:

"Users perform powerful self-service queries and ad-hoc reports without the use of any shadow systems to track information not contained in the EAM database, and without the need for custom programming."

Reducing the amount of separate report requirements will increase efficiency of the DEI invoice process.

Since the BTS application development process usually reports to the organization's top management, the systems that they develop are designed for overall needs. The needs of departmental managers are often quite different, requiring more detailed analysis that incorporate variables not contained in the solution designed by the central information systems

department. The current application selection process is including needs at the department level.

The current version of Maximo does not meet the department's information needs for asset management repair/replacement. Maximo appears to have the data, but it is scattered among many different screen tabs. The data structure prevents the easy aggregation for the repair/replacement decisions. The Maximo Equipment Failure Summary report and Detailed Failure by Machine report do not have adequate information on life cycle costs for asset management.

We recommend DEI management:

Continue working on choosing a new Enterprise Asset Management (EAM) system. There is still a risk that the EAM system will not provide enough detail information to help DEI department management with repair/replacement decisions. Spreadsheets may still have to be used to support the process.

Management Response:

The Enterprise Asset Management team is addressing departmental needs to ensure the selected asset management system provides compatibility with existing County systems.

Attachment A

Mader Electric Invoices Tested

Invoice Number	Amount	Issues
30159	4,521.76	Pump and Part cost with 15% markup not shown on invoice.
30323	631.08	Pump and Part cost with 15% markup not shown on invoice.
31709	4,820.28	Pump and Part cost with 15% markup not shown on invoice, credit line item not referenced to invoice or calculation.
33617	6,439.00	Motor - Invoice line items not priced for Rewind/Recondition service or repairs only lump sum total, part's MSRP and 25% discount not shown as individual price; labor hours and rate not shown with individual price or activity.
34019	11,109.00	Motor - Invoice line items not priced for Rewind/Recondition service or repairs only lump-sum total, part's MSRP and 25% discount not shown as individual price; labor hours and rate not shown with individual price or activity.
33073	11,254.50	Pump - labor incorrectly billed as a \$350 lump sum rather than by the hour. Invoice does not show part cost and 15% markup.
T206	4,850.00	Pump - labor incorrectly billed as a \$350 lump sum rather than by hour. Rebuild includes the installation of a new shaft, so labor to repair shaft fit seems like it should be included in the rebuild.
35584	5,400.00	None
30312	27,038.91	Pump - Parts & Labor - part cost and 15% markup not shown on invoice labor hours and rate not shown with individual price by activity.
30754	2,780.00	Pump - according to the work description of a rebuild specification, it includes, "Furnish and install new shaft," so the 8 machine work labor hours charged to rebuild shaft and seal journals should not have been charged.
30755	18,740.93	Pump - Parts & Labor - wrong labor rate \$40, part cost and 15% markup. According to the work description of a rebuild specification, it includes, "Furnish and install new shaft," so the 7 machine work labor hours charged to repair shaft seal journal should not have been charged.
30952	20,072.21	Pump - Parts & Labor - part cost and 15% markup not shown on invoice labor hours and rate not shown with individual price by activity.
33053	2,700.00	Pump - Same repair done on pump in February 2012 on invoice 30755 should have been under warranty. Wrong labor rate \$40.
33554	43,443.08	Pump - Parts & Labor - part cost and 15% markup not shown on invoice, freight charged as a separate line item. Labor hours and rate not shown with individual price by activity
34542	20,072.21	Pump - Parts & Labor - part cost and 15% markup not shown on invoice labor hours and rate not shown with individual price by activity.

Opportunities for Improvement
Multiple Award Service Contracts for Motor & Pump Repair Audit

Invoice Number	Amount	Issues
34553	2,710.00	Pump - according to the work description of a rebuild specification, it includes, "Furnish and install new shaft," so the 6 machine work labor hours charged to repair the shaft as needed should not have been charged.
35089	8,471.83	Pump - part cost and 15% markup not shown on invoice. According to the work description of a rebuild specification, it includes, "Furnish and install new shaft," so the 6 machine work labor hours charged to repair the shaft, as needed, should not have been charged.
35218	18,402.41	Pump - part cost and 15% markup not shown on invoice labor hours and rate not shown with individual price by activity.
35547	9,939.92	Pump - part cost and 15% markup not shown on invoice. According to the work description of a rebuild specification, it includes, "Furnish and install new shaft," so the 7 machine work labor hours charged to repair the shaft, as needed, should not have been charged.

Other Supplier Invoices Tested

Invoice Number	Amount	Issues
0029659-IN	1,370.35	Incorrectly billed labor as lump sum amounts rather than by \$80 per hour contract rate for inspections.
07664395	2,407.95	Parts price is retail price less 5% discount rather than cost plus 30% markup. Material priced at retail with no discount.
07656264	6,571.15	Parts price is retail price less 5% discount rather than cost plus 25% markup.
07668235	1,705.00	Invoice did not show pump cost plus 25% markup.
07668815	4,615.75	Labor quantity of 8 hours was not billed by hourly rate, only included in total. Invoice did not show part cost and 30% markup.
1122405	4,957.00	None
11005113	5,320.00	Invoice did not show pump cost plus 10% markup.
11005255	493.00	Incorrectly billed labor as lump sum amount rather than by the hour.
40002620	3,755.00	Incorrectly charged labor and parts as lump sum. Labor should be billed hourly and parts should be billed at cost plus 15%.



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