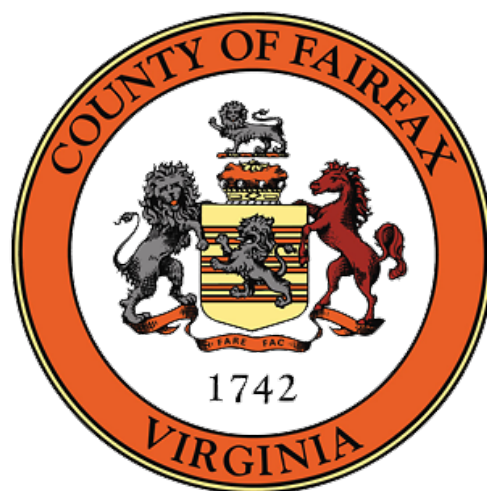


OFFICE OF FINANCIAL & PROGRAM AUDIT



December 2013

Quarterly Report

FAIRFAX COUNTY BOARD OF SUPERVISORS
AUDITOR OF THE BOARD

www.fairfaxcounty.gov/boardauditor/

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Office of Financial & Program Audit

QUARTERLY REPORT

EXECUTIVE SUMMARY

Sole Source Contracts Review

Sole source contracts are exempt from the competitive procurement process and are used when the County Purchasing Agent or other delegated department has determined that only one source is practicably available to satisfy the requirement. As of November 2013, the County had an estimated 210 sole source contracts which ranged in value from \$10 million to less than \$10,000.

During our review, we found that the online Contract Register maintained by the County's central purchasing department (the Department of Purchasing and Supply Management) and the standard reports in the County's Enterprise Resource Planning system (FOCUS) excluded at least 30 percent of the County's total contract population. Consequently, we had no way to verify the completeness of the list of sole source contracts from which our sample was pulled. In addition, nearly half of the County contracts listed in the sole source report provided by the Department of Purchasing and Supply Management (DPSM) had default Target Values set at or near \$1,000,000,000. The Target Value field is an important control field that should represent the actual or estimated total contract value.

DPSM should replace the default contract Target Value fields with the actual or estimated total contract value, ensure that required sole source documentation is maintained in the contract files, modify wording on the County's online Contracts Register to indicate the exclusion of capital construction and design contracts, and continue to work with the FOCUS Business Support Group to develop reports that meet business needs.

Dulles Metrorail Project Status

As of October 2013, construction for Phase 1 of the Dulles Metrorail project was 98% complete. Actual Phase 1 costs were \$2.698 billion as of October 2013, which represents 81% of the total \$3.343 billion budget for Phase 1. Construction for each of the five new stations was well over 90% complete. On December 2, 2013, MWAA announced additional schedule delays caused by increased testing and needed improvements to the automatic train control system. The new tentative projected date to achieve substantial completion is early 2014, testing progress and weather permitting.

Employee Recruitment and Turnover Trends

The County's merit employee turnover rate has remained consistently below comparative national rates for state and local governments for the past five fiscal years. In addition, the County continues to attract qualified job applicants, as demonstrated by the total increase in certified (qualified) applicants during the past five fiscal years. The total County merit employee population ranged from 12,343 in fiscal year 2009 to 12,302 in fiscal year 2013. Among the County's seven primary department categories, Public Safety and Health and Human Services had the highest percentages of merit employees.

Wireless Services Contracts

The current contracts with the County's three wireless carriers are set to end in June 2014. The new contracts are in the final stages of negotiation and could provide an opportunity for cost savings. Specifically, the Department of Information Technology (DIT) should ensure that the wireless carriers provide access to billing records in accordance with the contract terms. In addition, DIT should explore options for government pay-per-use rates for wireless devices that have been set aside for emergencies. Finally, DIT should request an exemption from paying discretionary charges, such as directory assistance for which the County is currently charged up to \$1.99 per call.

STUDY BRIEFINGS

SOLE SOURCE CONTRACTS REVIEW

Overview

Sole source contracts are exempt from the competitive procurement process and are used when the County Purchasing Agent or other delegated department has determined that only one source is practicably available to satisfy the requirement. As of November 2013, the County had an estimated 210 active sole source contracts, which represented less than 10 percent of the total estimated contract population. Individual sole source contracts range in value from \$10 million to less than \$10,000 and are used for a variety of goods and services, such as information technology, health care, recreational equipment, and industrial tools. The general policies regarding the use of sole source contracts are outlined in the Fairfax County Purchasing Resolution, which was adopted by the Board of Supervisors on July 9, 2013.

Scope and Methodology

The scope of our review included sole source contracts that were active as of November 2013 and had a total contract value greater than \$10,000.¹ The purpose of our review was to determine:

- (1) The total number and value of sole source contracts county-wide.
- (2) The total number and value of all contracts county-wide, to evaluate the extent to which sole source contracts are used.
- (3) If the sole source contract files contained the required documentation specified in the Fairfax County Purchasing Resolution and Internal Procedural Memorandum 12-200 dated June 24, 2010 (the version that was in effect at the time of our review).

To determine the extent to which sole source contracts are used throughout the County, we attempted to obtain a complete and verifiable list of active sole source contracts. From the list, we planned to select a sample of 10 sole source contracts stratified by department, contract value, and contract type to evaluate compliance with applicable policies and procedures.

Unreliable and Incomplete Data Caused a Significant Scope Limitation

During our review, we found that the online Contract Register maintained by the County's central purchasing department (the Department of Purchasing and Supply Management) and the standard reports in the County's Enterprise Resource Planning system (FOCUS) excluded at least 30 percent of the County's total contract population. Because the online Contract Register and standard FOCUS reports were incomplete and missing key data fields (such as the Target Value field), the Department of Purchasing and Supply Management (DPSM) submitted a request to the FOCUS Business Support Group (FBSG) to create an ad-hoc sole source contract report. The report took two months to complete and was provided to us one week before the end of fieldwork for this quarter.

¹ The procurement and contracting activities of the Fairfax County Public Schools are delegated to the FCPS Office of Procurement Services by the County Purchasing Agent. Therefore, our review excluded sole source contracts that were the responsibility of the Fairfax County Public Schools. In addition, due to the scope limitations noted in this section, our review did not include capital construction and related service contracts managed by departments with delegated authority under Article 1, Section 3 of the Fairfax County Purchasing Resolution.

We found that the data contained in the ad-hoc sole source contract report was unreliable and incomplete.

- **Unreliable data** - We were unable to use at least one of the key data fields (the Target Value field) in the ad-hoc sole source contract report due to placeholder default values that were used to accommodate the initial transfer of data from the County's old purchasing system in November 2011. Specifically, nearly half of the County contracts listed in the sole source report had default Target Values of \$1,000,000,000, \$999,999,999, or \$99,999,999. The Target Value field is an important control field that should represent the estimated or actual value (size) of the contract. Without a reliable Target Value field, we would have to go to the paper contract files for each of the over 200 contracts listed on the sole source report to pull an accurate representative sample based on the size (total value) of the contracts.
- **Incomplete data** - Because capital construction contracts are accounted for differently in FOCUS, the ad-hoc sole source report did not pull from the entire population of contracts. Specifically, capital construction and related services contracts representing at least 30 percent of the estimated total contracts were excluded from potential population. We had to rely on inquiries of the capital project departments to determine if there were any sole source capital construction contracts. Consequently, we had no way to verify the completeness of the list of sole source contracts from which our sample was pulled.

The issues noted above represent a significant scope limitation for our review.

Requirements for Sole Source Contracting

The Fairfax County Purchasing Resolution establishes the purchasing authority and general policies for County departments and agencies. The sole source procurement section of the Purchasing Resolution states:

“Upon determination in writing that there is only one source practicably available for that which is to be procured, a contract may be negotiated and awarded to that source without competitively sealed bidding or competitive negotiation. A written record documenting the basis for this determination shall be included in the appropriate contract file or other records of procurement.”

Sole source contracts with total values greater than \$10,000 must be approved by the DPSM Director (Purchasing Agent). Article 1, Section 3 of the Purchasing Resolution excludes capital construction and related architectural and engineering services contracts from the Purchasing Agent and delegates the responsibility of those contracts to the directors of four departments/agencies: (1) the Department of Public Works and Environmental Services (DPWES), (2) the Department of Transportation (DOT), (3) the Fairfax County Park Authority, and (4) the Department of Housing and Community Development (DHCD). The Purchasing Resolution further specifies that the Department of Transportation, the Fairfax County Park Authority, and the Department of Housing and Community Development may delegate their construction contracting authority to DPWES through a memorandum of understanding.

Sole Source Contract Documentation Review

The Fairfax County Purchasing Resolution requires departments to provide written justification for sole source contract requests. In addition, Internal Procedural Memorandum 12-200 requires public notice of award of any sole source contract with a total value greater than \$10,000.

To determine if the sole source contract files contained the required documentation, we selected a sample of 10 contracts from the ad-hoc sole source contract report provided by DPSM. The selected contracts had total values ranging from \$1.4 million to \$25,000 and covered a wide range of goods and services.

We found that the required written justifications and public notifications were not maintained in the contract files for 3 of the 10 selected sole source contracts.

- For two of the selected sole source contracts, DPSM could not provide documentation showing that the contract awards were publically posted. Internal Procedural Memorandum 12-200 states, *“For any sole source procurement above \$10,000, a copy of the approved Sole Source Determinations and Findings shall be posted within the Department of Purchasing and Supply Management, Public Information Area...Public notice may also be published on the Virginia Department of General Services’ central electronic procurement website (eVA) and other appropriate websites.”*
- For one of the selected sole source contracts (valued at \$1.4 million), DPSM could not provide documentation showing the requesting department’s sole source procurement justification. According to DPSM officials, this contract was initially established as a sole source in 2003 and the original department request was not transferred to the current contract file. Therefore, there is no evidence in the contract file of the department’s sole source procurement request. Internal Procedural Memorandum 12-200 states, *“For sole source procurements above \$10,000, departments shall complete and submit and Sole Source Procurement Request to DPSM for review and approval.”*

Sole Source Procurement Request Sample Department Justification Questions

- Explain why this is the only product or service that can meet your department's needs.
- Explain why this vendor is the only practicable source available from which to obtain this product or service.
- What other potential sources were considered and why are they not acceptable?
- Explain why this action/choice is in the best interest of the County.
- Explain why the price is considered fair and reasonable.

System Reporting Limitations Hinder Effective Contract Oversight

Capital construction and related services contracts are managed outside of the central purchasing department (DPSM) and outside of the standard contract reporting process in FOCUS. As a result, at least 30 percent of the County’s contracts are excluded from the online Contract Register and standard contract reports in FOCUS. Information must be pieced together from five different departments/agencies and at least 10 different funds in order to get a complete picture of contracting activity county-wide.

The capital project departments/agencies (DPWES, DOT, Park Authority, and HCD) elected not to use the standard contract process in FOCUS for capital construction and related service contracts because FOCUS is lacking the critical components needed to effectively manage and monitor contracts. For example, staff who oversee capital construction and design contracts need to discretely track expenditures and other contract balance reductions in at least five different categories (payments, change orders, amendments, contingencies, and other contract terms).

The standard contract accounting process in FOCUS involves purchase orders, which are one type of encumbrance against which expenditures are charged. Capital construction and related service contracts are established in FOCUS using a different type of encumbrance (fund reservation) and staff primarily use Excel spreadsheets to manage individual categories of contract expenditures and contract balance reductions. Department staff and the FOCUS project team investigated financial management and contract reporting capabilities in FOCUS during system implementation and subsequent to the November 2011 “Go-Live” date, but were unable to satisfy the capital construction departments’ requirements with the system as implemented.

Recommendations:

The Department of Purchasing and Supply Management (DPSM) Director agreed with the findings noted in this report and will implement the following recommendations:

- Replace the default placeholder contract Target Value fields in FOCUS (currently set at or near \$1,000,000,000) with the actual or estimated contract values.
- Ensure that documentation related to sole source justifications and public notification is maintained in the contract files, particularly for contracts that were awarded more than five years ago and have multiple extensions.
- Change the wording on the County’s Contract Register website to disclose the exclusion of contracts related to capital construction and architectural and engineering services. The website currently states, “This site provides contract information for all Fairfax County contracts...”
- Continue to work with the FOCUS Business Support Group to develop contract reports in FOCUS that are consistent with business needs. These efforts should include the development of standard reports that can produce a complete list of all active contracts (including capital construction and related services contracts that are managed by the departments with delegated contracting authority).

DULLES METRORAIL PROJECT STATUS

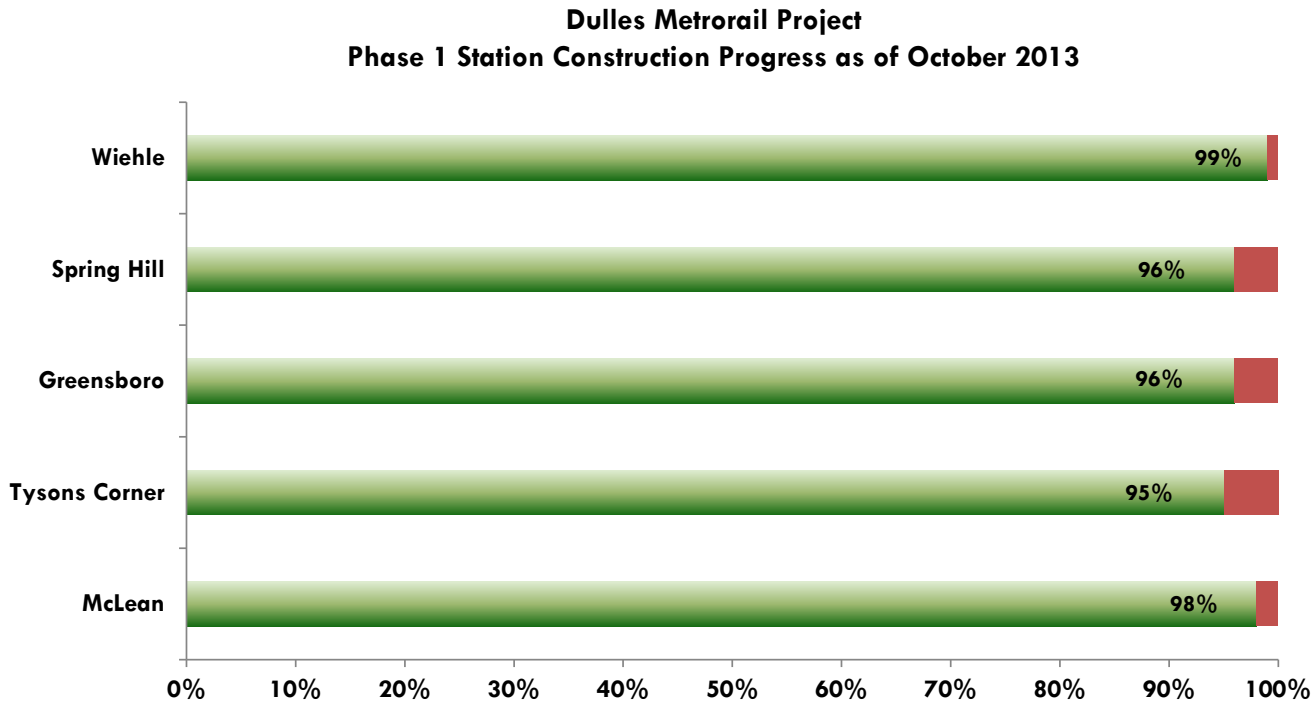
Overview

The Dulles Metrorail Project is a 23-mile extension of the Metrorail system through the Dulles Corridor. The project is divided into two phases. Phase 1 of the project includes five new stations as well as improvements to the West Falls Church rail yard. Phase 2 of the project will include six new stations as well as a maintenance and storage facility at Dulles International Airport. The Metropolitan Washington Airports Authority (MWAA) is responsible for managing the Dulles Metrorail Project through the substantial completion of each phase, at which point the project will be turned over to the Washington Metropolitan Area Transit Authority (WMATA).

The total combined budget for Phase 1 and Phase 2 of the project is estimated to be \$6.5 billion. Funding for the project is provided through a combination of federal, state, and local sources. Fairfax County's baseline funding obligation for the project is 16.1% of total final costs.

Project Progress

As of October 2013, construction for Phase 1 was 98% complete. Actual Phase 1 costs were \$2.698 billion as of October 2013, which represents 81% of the total \$3.343 billion budget for Phase 1.² The following chart shows the percentage of completion for the five new Phase 1 stations as of October 2013.



As of October 2013, the West Falls Church rail yard had an estimated completion date of January 2014. Site work and track work were 99% complete. The Service and Inspection Building for the West Falls Church rail yard was 80% complete and system testing was 15% complete. The initial delivery of the new 7000-series rail cars is scheduled for February 2014 with additional deliveries running through 2014 and 2015.

² The total \$3.343 billion budget for Phase 1 includes \$438 million for budgeted project finance costs. The total \$2.698 billion actual costs as of October 2013 include \$121 million in actual project finance costs. We obtained project budget and cost information from MWAA's October 2013 Monthly Progress Report for Phase 1, which was issued in December 2013.

Project Schedule

Two critical dates for Phase I are the Scheduled Substantial Completion Date (SSCD) and Revenue Operations Date (ROD). The substantial completion date represents the point at which MWAA is ready to turn over the project to WMATA. The Revenue Operations Date is the point at which the Dulles Metrorail is ready for passenger service. The revenue operations date is projected to occur 90 calendar days after the scheduled substantial completion date.

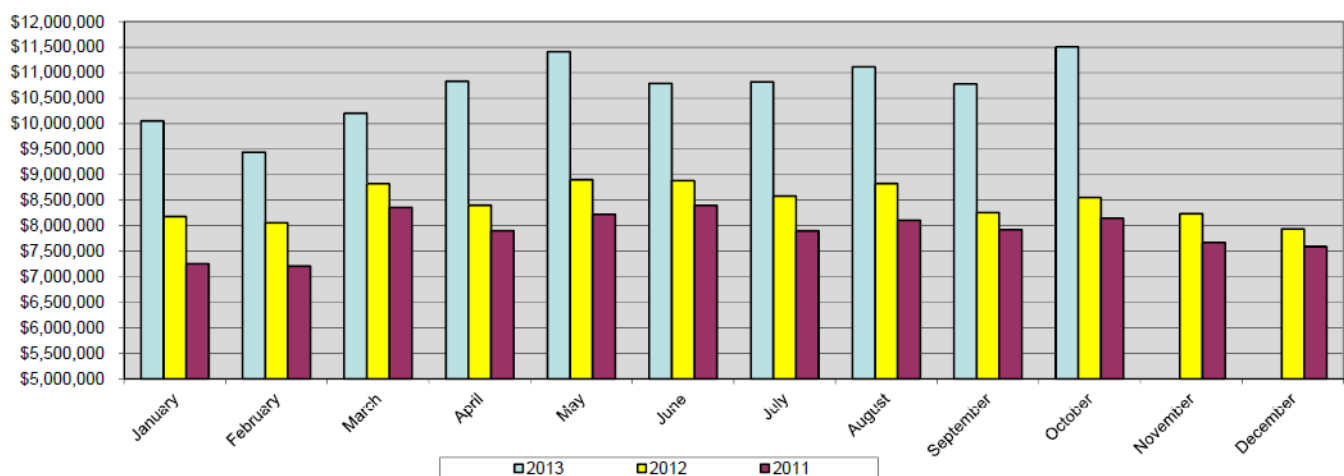
The scheduled substantial completion date has been pushed back at least five months from the original baseline date of July 31, 2013. The schedule delays are primarily attributed to inclement weather and additional safety testing on the automatic train control system. In its October 2013 Monthly Progress Report, MWAA reported a revised substantial completion date of November 26, 2013, which would result in a projected revenue operations date of March 2014. However, on December 2, 2013, MWAA announced additional delays caused by increased testing and needed improvements to the automatic train control system. As of the date of our report, Phase I of the project had not yet achieved the substantial completion milestone. The new tentative projected date to achieve substantial completion is early 2014, testing progress and weather permitting.

Dulles Toll Road Revenue and Transaction Trends

Revenues generated from the Dulles Toll Road are the single most significant funding source for the Dulles Metrorail Project. More than half of the project's estimated \$6.5 billion in total costs will be supported through long-term debt obligations backed by toll road revenues. Dulles Toll Road revenues will be used to sustain debt service payments until the debt is retired in 2047. As of October 2013, MWAA reported that actual toll road revenues and transactions were consistent with budget estimates and toll road study projections.

MWAA's reported toll road revenues for calendar years 2011 through 2013 are presented in the chart below:

**Dulles Toll Road Revenues
Calendar Years 2011 - 2013**



Source: MWAA Dulles Corridor Enterprise October 2013 Financial Report, presented to the MWAA Board on November 13, 2013.

Audit and Oversight Activities

The Federal Transit Administration (FTA) has contracted with a private company (known as the Project Management Oversight Contractor) to provide ongoing monitoring and oversight of Phase 1. In addition, the FTA Office of the Inspector General (FTA OIG) has conducted audits of FTA's oversight of Phase 1 and the underlying assumptions used to develop MWAA's estimates of toll road revenues. The FTA OIG made recommendations to improve project oversight of Phase 1 and concluded that the toll road revenue estimates were generally reasonable. An audit of the financial management of Phase 1 of the project is scheduled to be released during the first quarter of 2014.

EMPLOYEE TURNOVER AND RECRUITMENT TRENDS

Overview

The County's merit employee turnover rate has remained consistently below comparative national rates for state and local governments for the past five fiscal years. In addition, the County continues to attract qualified job applicants, as demonstrated by the total increase in certified (qualified) applicants during the past five fiscal years. The total County merit employee population ranged from 12,343 in fiscal year 2009 to 12,302 in fiscal year 2013. Among the County's seven primary department categories, Public Safety and Health and Human Services had the highest percentages of merit employees.

Scope and Methodology

The scope of our review included active merit employees and certified job applicants for fiscal years 2009 through 2013. The purpose of this review was to provide basic comparative information on merit employee turnover and recruitment trends for the past five fiscal years.

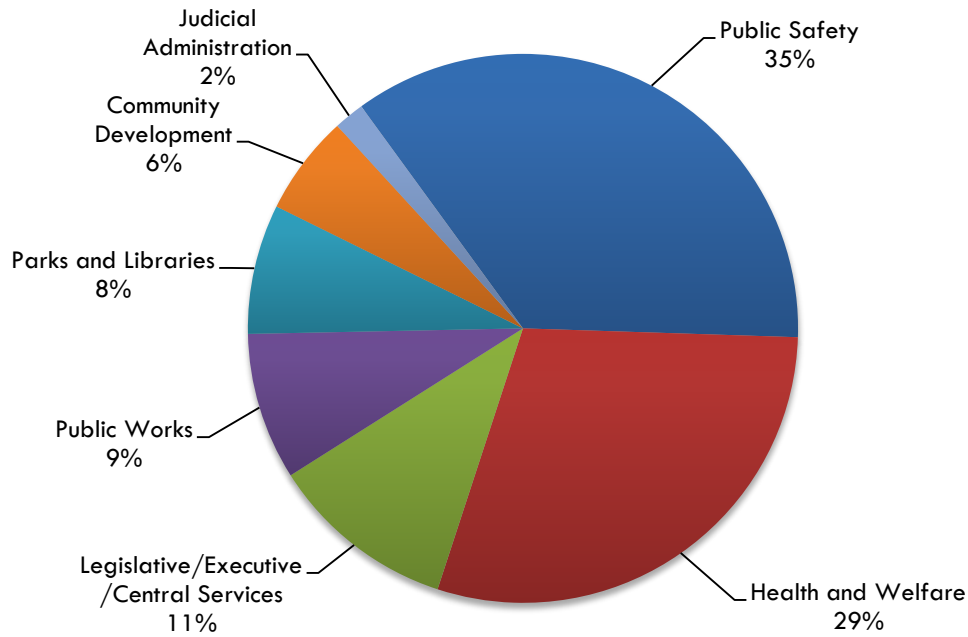
The turnover rate represents the number of merit employees who leave County employment, expressed as a percentage of the total active merit employee count at a point-in-time. To determine the employee turnover rate, we obtained point-in-time downloads of active merit employees from the County's prior human resources system, PRISM (for fiscal years 2010 to 2012) and current system, FOCUS (for fiscal year 2013). Since a point-in-time download of active merit employees was unavailable for fiscal year 2009, we used the actual Full Time Equivalent (FTE) counts reported in the Adopted Budget and adjusted the totals for the estimated number of job share employees for the fiscal year. We then analyzed and summarized the data by system action codes related to terminations and hires. To determine the trends related to the number of qualified job applicants, we analyzed job applicant reports provided by the Department of Human Resources for fiscal years 2009 through 2013.

Distribution of County Workforce

The County's merit employee workforce can be divided into seven broad department categories: (1) Legislative/Executive/Central Services, (2) Health and Welfare, (3) Community Development, (4) Public Safety, (5) Public Works, (6) Judicial Administration, and (7) Parks and Libraries.

For fiscal year 2013, Public Safety had the largest percentage of merit employees (35%) followed by Health and Welfare (29%) and Legislative/Executive/Central Services (11%). The table and pie chart on the following page summarize the County's total merit employee counts by the seven department categories.

**Fairfax County Distribution of Active Merit Employees
Fiscal Year 2013**



Department Category	2009	2010	2011	2012	2013
Public Safety	4,381	4,367	4,432	4,446	4,369
Health and Welfare	3,342	3,529	3,685	3,735	3,630
Legislative/Executive/Central Services	1,521	1,345	1,368	1,352	1,351
Public Works	1,124	1,011	1,042	1,040	1,067
Parks and Libraries	913	977	936	933	941
Community Development	842	766	743	740	724
Judicial Administration	220	210	212	214	220
Total Merit Employee Count	12,343	12,205	12,418	12,460	12,302

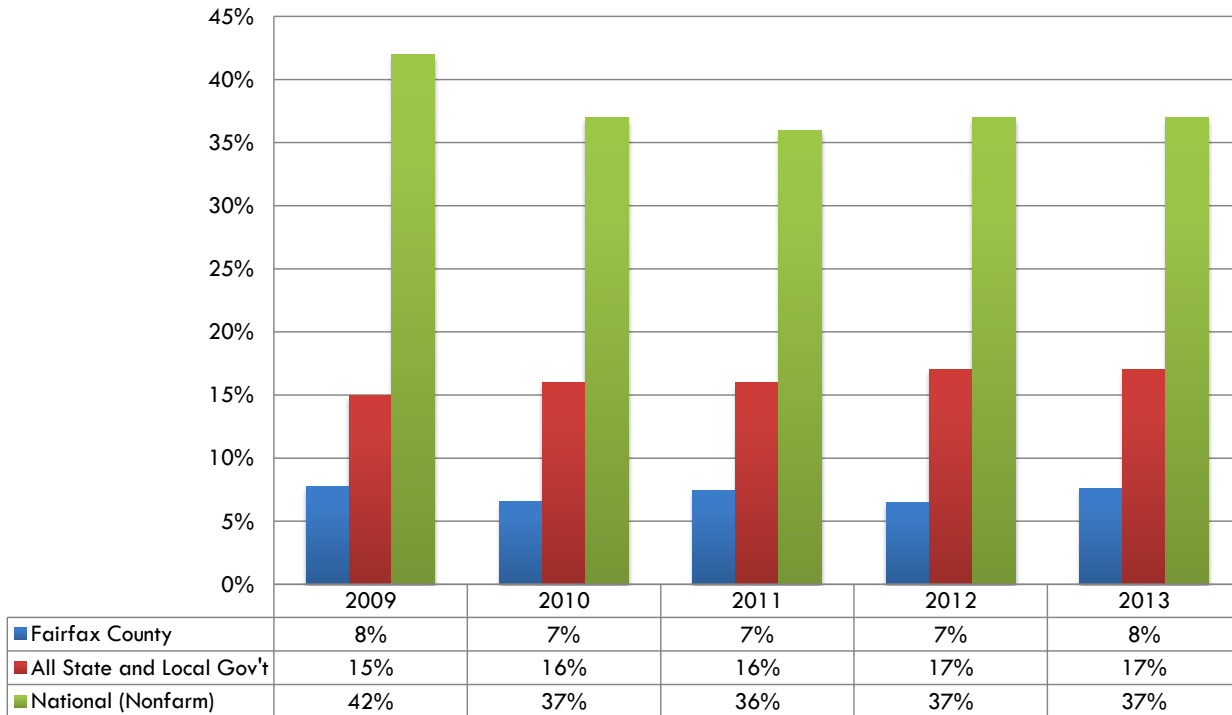
Source: Active merit employee data obtained from the Department of Human Resources and the Adopted Budget.

Employee Turnover Trends

The County's turnover rate for merit employees averaged 7% during the past five fiscal years. We compared the County's turnover rates to comparative rates for state and local governments, which ranged from 15% to 17% annually and national (non-agriculture jobs) rates, which ranged from 36% to 42% annually.

As shown in the chart below, the County's turnover rate has remained consistently below comparative national rates for state and local governments.

**Comparison of Employee Turnover Rates
Fairfax County vs. National and State/Local
Fiscal Years 2009 - 2013**



Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey and merit employee data provided by the Fairfax County Department of Human Resources.

Recruitment Trends

The total number of certified (qualified) job applicants has increased during the past five fiscal years. During fiscal year 2009 through 2013, the total number of qualified job applicants increased from 11,202 to 21,879 for both merit and non-merit positions. During the same time period, the average number of qualified job applicants by posted job class increased from 27 to 39. Total merit employee hires and re-hires increased from 491 in fiscal year 2009 to 643 in fiscal year 2013.

**Average Number of Certified (Qualified) Applicants per Job Class Posted
Fiscal Years 2009 - 2013**

Average # Certified Applicants per Job Class Posted	2009	2010	2011	2012	2013	Annual Average
	27	22	32	46	39	33.2

Source: Certified applicant data obtained from the Department of Human Resources.

FOLLOW-UP AND OTHER ONGOING ACTIVITIES

WIRELESS SERVICES CONTRACTS – COST SAVINGS OPPORTUNITIES

In our September 2011 report on telecommunications billings, we identified several cost saving opportunities for the County's wireless services. During our review, we found that there was an overall lack of transparency in the wireless billing records for each of the three wireless carriers. For example, the wireless carriers had a general billing category labeled "Additional" or "Other." However, these charges were not clearly explained or described on the invoices. We also found that the wireless companies did not provide or maintain billing records in accordance with the contract terms and routinely charged the County for discretionary fees and services.

The current contracts with the three carriers are set to end in June 2014. The new contracts are in the final stages of negotiation and could provide an opportunity for cost savings. Specifically, the Department of Information Technology (DIT) should ensure that the wireless carriers provide access to billing records in accordance with the contract terms. In addition, DIT should explore options for government pay-per-use rates for wireless devices that have been set aside for emergencies. Finally, DIT should request an exemption from paying discretionary charges, such as directory assistance for which the County is currently charged up to \$1.99 per call.

FAIRFAX COUNTY PUBLIC SCHOOLS – TELECOMMUNICATIONS COSTS

On September 24, 2013, the Fairfax County Board of Supervisors – Audit Committee approved a study of the Fairfax County Public Schools (FCPS) telecommunications expenditures. The study was intended to be an extension of our September 2011 report on telecommunication billing errors. Our report identified significant billing errors and recovered costs to the County totaling over \$3 million from 2006 to 2011.

FCPS recently completed a preliminary review of their telecommunications expenditures using an outside firm. The firm identified annual recurring savings of \$36,800. FCPS is in the process of converting their land line and wireless services under the new telecommunications contracts. Once the conversion process is complete, we will meet with FCPS to discuss their planned efforts to review telecommunications expenditures under the new contracts.

LIST OF ACRONYMS

DHCD	Department of Housing and Community Development
DIT	Department of Information Technology
DOT	Department of Transportation
DPSM	Department of Purchasing and Supply Management
DPWES	Department of Public Works and Environmental Services
FBSG	FOCUS Business Support Group
FCPS	Fairfax County Public Schools
FTA	Federal Transit Administration
MWAA	Metropolitan Washington Airports Authority
OFPA	Office of Financial and Program Audit
PMOC	Project Management Oversight Contractor
ROD	Revenue Operations Date
SSCD	Scheduled Substantial Completion Date
WMATA	Washington Metropolitan Area Transit Authority