



Fairfax County Internal Audit Office

**Audit of G&K Contract Billings
Final Report**

March 2006

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Background

In February, 2005, the county received a communication from an anonymous source, who alleged that there was fraudulent activity over a number of years involving the billings from the county's uniform service provider. The county's current vendor is G&K Services, Inc. (G&K), and the previous vendor was Industrial Towel Supply, Inc. (ITSI), which was acquired by G&K in March, 2004. The allegations pertained to both of these companies specifically. The contractual relationships with both G&K and ITSI were the result of the county's election to "piggyback" onto uniform contracts previously solicited, negotiated, and awarded by other Virginia counties. Those contracts included a standard rider clause to allow other member jurisdictions of the Metropolitan Washington Council of Governments to ratify the contract terms as well.

There were 11 county departments which utilized the current uniform contract and collectively made payments totaling nearly \$400,000 to G&K during the audit period. The \$400,000 was comprised of 2,490 expenditure transactions. Due to the varying organizational structures and divisions of responsibility among agencies, we broke down the audit population into 19 groups, which were comprised of separate agencies, divisions, and/or cost centers. During our audit, we looked at ten of these groups.

Executive Summary

We had originally planned to audit the G&K contract payments for all 19 groups; however, we decided to discontinue audit testing after reviewing ten groups, as it became apparent that we could not meet the audit objective. Verification of individual invoice payments to approved pricing lists could not be done due to several factors. Lack of invoice documentation and sufficient, approved pricing information caused us to be unable to determine whether amounts paid to G&K were either excessive or were less than stipulated according to contract terms. Through the interviews and fieldwork that we performed, we were able to note several areas of concern which should be addressed to ensure that the county's uniform contract is sufficient and fully disseminated to applicable agencies, and that invoice payments are proper:

- The original contract that the county piggybacked on expired in 2001, resulting in there being no valid contract for a period of three years prior to the ratification of the G&K contract in August 2004.
- There was not a comprehensive, approved price list that met the requirements of each individual agency. Several different, inconsistent, price lists were being used by G&K for billing the various groups. Most of these price lists were not part of the approved contract documents.
- G&K was providing insufficient billing information on the invoices received, resulting in an inability to determine individual prices charged. Pricing on invoices was often done for uniform sets which did not match the type and/or quantity of sets contained in approved pricing lists.
- A 3% price increase which was supposed to go into effect June 16, 2004, was not being charged to the county in most instances.
- G&K was unable to provide requested data reports, although the contract terms required that they do so.

Recommendation

We recommend that the Department of Purchasing and Supply Management (DPSM) solicit proposals for a new uniform contract. We further recommend that a cross-department committee be formed to provide request for proposal (RFP) input in regard to uniform specifications, pricing structure, and other terms, to ensure that a new uniform contract meets the needs of all the departments.

We recommend that DPSM take a more hands-on approach to managing contracts that are riders on other jurisdictions' contracts. These contracts should not be allowed to lapse without another suitable contract in place, the terms and pricing schedules should meet the needs of county user agencies, and a more proactive process should be in place to notify user agencies of changes to contract terms or conditions. This would include providing county agencies with the guidance and information necessary to ensure that they have the means to perform effective oversight of the contract and all billings. On at least an annual basis, DPSM should contact the originating government to determine if there have been any price adjustments or other changes to contract terms, and communicate the changes to all the county agencies that utilize the contract.

County agencies should ensure that invoices received are adequately scrutinized so that only legitimate charges are paid and all charges are in accordance with pricing terms set forth in the applicable contract.

Management Response

DPSM staff performed an extensive search for other competitively bid uniform contracts on which the county might piggyback. This search revealed that many northern Virginia jurisdictions are, in fact, riding the Stafford County contract. Contracts held by other NCR jurisdictions are either not suitable for the county's use or do not contain clauses permitting us to piggyback on the contract. Therefore, DPSM has undertaken the task of working with county departments to prepare a new solicitation for uniform rental services. The solicitation is expected to be advertised late second quarter 2006. Until that time, the county will continue to utilize G&K services as there is no other adequate short-term alternative.

DPSM management will reinforce at staff meetings and in individual employee development, the necessity of ensuring that public contracts the county is interested in riding, whether discovered by customer departments or by DPSM staff, be scrutinized for applicability to county requirements and standards. Once established, DPSM analysts will review each cooperative contract prior to any annual renewal to determine if any changes have been made by the contracting entity. The current practice with all contracts is that upon renewal an amendment is created and notice is made to all subscribers to the "Contract Award Announcements." It is expected that from this broadcast notice each department will notify its contract managers of changes to their respective contract(s).

DPSM issues a monthly advisory report to purchasing staff alerting procurement analysts of pending contract anniversary and expiration dates. Further, DPSM will increase the usage of "pre-performance" or kick-off meetings for service contracts. These meetings will include

internal customers and contractors and are intended to review the contract terms, conditions, and operating parameters, as well as to acquaint all parties to the contract with their respective responsibilities.

Making sure that county agencies adequately scrutinize invoices will become a routine topic in quarterly meetings held with key customer departments, as will general discussion of improved coordination of information flowing between departments, contractors and DPSM.

Scope and Objectives

This audit was performed as part of our fiscal year 2006 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of August 10, 2004, through September 30, 2005, and our primary audit objective was to determine if payments to G&K were made in accordance with the contract terms.

Methodology

Our audit approach included reviewing the G&K contract documents, and interviewing the management and staff of DPSM responsible for the G&K contract, to obtain an understanding of the G&K contract terms. We also interviewed the relevant staff of the groups that utilized the G&K contract, and used an internal control questionnaire to assess the controls over the invoice review and approval processes. We obtained a sample of invoices for our review from each of the groups associated with the audit population of contract payments.

Our audit did not examine the system controls over the county's purchasing and financial applications. Our transaction testing did rely on those controls; therefore, this was a scope limitation. The potential impact of this circumstance on our findings was that some portion of transaction data may have been erroneous.

During our fieldwork procedures, it became apparent that we could not complete the audit objective of verifying invoice billings for the reasons described in the Executive Summary section of this report.

The Fairfax County Internal Audit Office is free from organizational impairments to independence in our reporting as defined by generally accepted government auditing standards. We report directly and are accountable to the county executive. Organizationally, we are outside the staff or line management function of the units that we audit. We report the results of our audits to the county executive and the Board of Supervisors, and reports are available to the public.