



Fairfax County Internal Audit Office

**Facilities Management Department
Work Performed for Others (WPFO) Audit
Final Report**

February 2010

"promoting efficient & effective local government"

Executive Summary

We performed an audit of the Facilities Management Department (FMD) Work Performed for Others (WPFO). FMD performs requested work for other county departments and generates interfund bills for services such as renovations to facilities, office space reconfigurations, contract security above standard service levels, all services for enterprise funded agencies, and agency purchases of systems furniture.

Our audit focused on the evaluation of controls in the interfund billing process for FMD. The total amount of interfund billing budgeted by FMD for FY 2009 was \$11M making up 18% of FMD's \$60.9M budgeted service costs. This audit included an examination of the billing methodology, analysis of costs, accuracy of request tracking, billing system input, billing processing, security, and reporting capabilities. Steps were taken to evaluate data safeguards, the tracking and maintaining of all labor and material costs associated with each work order, management monitoring, and separation of duties in the process. The results of our audit procedures indicated that the internal controls over WPFO needed to be strengthened:

- FMD did not have written policies and procedures related to WPFO operations including guidelines for when a job should be charged back or how job costs should be calculated.
- FMD was not reconciling WPFO transactions from the MP2 system to the CASPS inventory system and to FAMIS, increasing the risk of incomplete or incorrect billings to departments.
- The MP2 system was not producing necessary reports for proper management analysis, monitoring and decision making.
- Time logs used to record hours of FMD staff for work performed were not approved by supervisors. These documents were used to allocate labor charges to projects.
- In 40% of the work orders tested, charge back to other departments was not done in a timely manner after the work order close date.
- Multiple irregularities were noted in charging material and labor costs to departments, for instance, labor rates other than the FMD stated rate of \$30/hr were being charged; a WPFO transaction was misclassified to a different service sub-object understating the account, etc.
- FMD was not following county guidelines to arrive at the labor hour rate to be used to charge departments for work performed and did not have a written justification for the rates that they were using.

During the course of the audit, we noted that a large percentage (33%) of the transaction volume for WPFO operations and maintenance costs was for small dollar items such as making keys and cubicle name signage. Within the WPFO process, there are administrative costs and time involved from the point at which a work order request is received until the charged back agency approves the transfer voucher document in FAMIS. Discussion with FMD indicated that review had been done of their current charge back processes and they did not recommend any changes at this time. While this may be something to consider in the future to significantly reduce the number of jobs that are inter-invoiced to other departments, other factors such as department accountability for job

requests, security incentives over items such as keys, and the ability to provide FMD with budget funding to cover these costs, would need to be considered before any changes took place.

Scope and Objectives

This audit was performed as part of our fiscal year 2009 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. The audit covered the period of July 1, 2007, through November 30, 2008, and the audit objectives were to determine if:

- Billing methods and calculations were reasonable
- Work tracking and cost recording was accurate
- Billing for services provided was complete and timely
- Encumbrances were properly processed

Methodology

Our audit approach included interviewing appropriate staff, observing employees' work functions, detailed testing of various samples of transactions, and evaluating the processes for compliance with sound internal controls, county policies, departmental policies and procedures, and outside benchmarking.

Our audit did not examine the system controls over billings, collections, and posting 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 used by the agency may have been erroneous.

Findings, Recommendations, and Management Response

1. Policies and Procedures

The Facilities Management Department did not have written policies and procedures for Work Performed for Others (WPFO) transactions. The department primarily operated based on immediate maintenance needs, work requests, and past experience. For instance, we did not find any documentation specifying what jobs were charged back, labor rates used and how they were arrived at, processes work flow, etc.

The lack of documented policies and procedures increases the potential for inconsistencies in work processes and in errors and omissions and control weaknesses. Further, it increases the time it takes to train staff in the event of employee turnover and decreases employee accountability for properly fulfilling their responsibilities.

Recommendation: We recommend that FMD develop, document and implement a comprehensive policies and procedures manual associated with the work performed for others function. Management should involve staff from all levels in the process to ensure resulting policies and procedures are practical and support the employees in positive ways to address their day-to-day challenges. It is also an opportunity to enlighten staff about the purpose and need for better controls. Functions that should be documented include, but are not limited to, types of jobs that will be charged back, workflow processes, etc.

Management Reponses: FMD will develop, document, and implement internal policies, and procedures with regard to WPFO processes. Upon completion, a comprehensive review with appropriate agency staff will be conducted.

The anticipated completion date is March 30, 2010.

2. Reconciliations

At the time of our test work, FMD was not reconciling WPFO transactions from the MP2 system to CASPS Inventory system and to FAMIS. Monthly reports were being run from the MP2 system and used to enter transactions into FAMIS; however, WPFO sub-object totals in FAMIS were not being reconciled with source documentation. In addition, we noted three instances where materials issued in the CASPS Inventory System for a work order did not match the amount in MP2. We were informed that prior amounts shown in the MP2 system were used to bill the other agency, resulting in incorrect billing.

In the absence of reconciliations between MP2 and FAMIS, there can be no assurance that transactions got recorded completely and accurately in FAMIS for the purpose of billings. If CASPS Inventory system is not reconciled with the MP2 system, there is a risk of inaccurate costs posted to MP2 system.

Note: Subsequent to the completion of fieldwork of this audit Internal Audit learned that the MP2 system is in the process of being replaced by a system called Trirega. As of the closing date of this audit both systems were running to capture different sets of data. The targeted date to shut down MP2 and have Trirega fully running is January 1, 2010.

Recommendation: FMD should perform monthly reconciliations in FAMIS for the WPFO sub-objects. This reconciliation should have totals of all sources that post to the WPFO sub-objects including Trirega system totals. Additionally, material costs posted to the Trirega system should be reconciled to the CASPS Inventory system on a monthly basis. Reconciliations should be signed and dated by preparer and supported by adequate documentation. Regular reconciliations will ensure proper accountability and assurance that *all* WPFO transactions have been recorded.

Management Response: The CIFM system is currently being developed and FMD has begun holding weekly developmental meetings with DIT staff. FMD will be requesting to have included in the program specified user-defined fields. It is

intended system reports be developed and sorted by these fields, which then can be utilized to perform a monthly FAMIS reconciliation. The anticipated completion date of this task is April 30, 2010.

FMD is currently working with DPSM to create a DART report summarizing CASPS inventory/stock material issues. When developed, this report will be used to perform monthly reconciliation to the CIFM. Upon completion, the reviewer shall initial and date the DART report. These reports will be retained a minimum of three fiscal years. The anticipated completion date of this task is February 28, 2010.

FMD will maintain a list of all WPFO transfer vouchers created in FAMIS. A report will be created monthly and reconciled with FAMIS. Upon completion of the reconciliation, a reviewer will initial, date, and file the report.

3. MP2 System

Burke Station Road complex staff indicated that the MP2 system used at the time of our test work for work order processing, tracking and reporting was not capable of meeting basic business needs. No reports were being generated for reconciliation or analysis. A report of reimbursable transactions for our audit purposes could not be produced either in hardcopy or electronic format. Two reports needed to be run for reimbursable transactions, one for financial data and the other provided project details such as descriptions, location, etc. The transactions on the two sets of reports were not in any specific order, making it cumbersome to link the costs on one report and all other attributes on another report, precluding us from performing any data analysis. In addition, our test work and discussions with FMD staff revealed that although the department had previously informed us that all material costs were marked up 10% for charge backs, it was not being done due to lack of system capability to handle markups. These system issues could result in management not receiving sufficient information for proper decision making and inability to properly charge back costs.

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Recommendation: The functionality of the Trirega system should be reviewed to fully utilize its features and capabilities especially in the areas of management reporting and data downloads. At a minimum, FMD should research the ability to develop a report that includes project detail information and costs, reconciliation reports and system mark-up capabilities. Additionally, FMD should consider eliminating the 10% mark-up for all material costs and only charge mark-ups for contingencies for large jobs.

Management Response: FMD is in the process of developing management and billing reports. The reports will incorporate the Internal Audit Office recommendations into FMD's report development.

The anticipated completion date is March 30, 2010.

4. **Approval of Time Logs**

We noted that Daily Activity and Attendance Reports (Time Logs) used to log labor hours by FMD staff for work performed were not being reviewed and approved by supervisors. FMD staff recorded regular and overtime hours related to work orders on time logs which were then used to bill agencies for work performed.

Without proper supervisory approvals the integrity of hours recorded cannot be assured. There is a risk that workers could log in incorrect hours or hours that they never worked, resulting in inaccurate billings to agencies. Additionally, accountability for staff productivity is weakened.

Recommendation: We recommend that supervisors review, initial and date the time logs to ensure accuracy, reliability and integrity of labor hours reported and billed.

Management Response: Supervisors will review the daily activity and attendance reports daily for accuracy of time reported, and upon validation, will initial and date the log sheet. Daily logs will be forward to work control for data entry into the CIFM system. Work control staff will enter data for the validated time logs into the CIFM system. Upon completion of data entry, the time logs will be initialed and dated.

5. **Timeliness of Billings for Work Orders**

In nine out of 50 work orders tested, the charge-back to other agencies was not done in a timely manner. We noted a time lag of two to eight months between work order close date and FAMIS transfer voucher date. One of those work orders had crossed fiscal years and no accrual for WPFO reimbursement was done. We were informed that in some instances work orders did not reach the FMD accounting section for billings, and in others, the charge-back agencies were delaying the approval of transfer vouchers in FAMIS.

Failure to bill agencies in a timely manner increases the risk of lost or delayed reimbursements for expenditures. Not accruing for services at year end may result in non-compliance with generally accepted accounting principles.

Recommendation: FMD should take appropriate steps to address the issue of timely billings to agencies for all closed work orders. FMD should also work with charge-back agencies for faster approval of transfer vouchers. All services performed the end of fiscal year and not approved by other agencies should be accrued to comply with generally accepted accounting principles.

Management Response: FMD will bill agencies within 10 business days of receipt of the monthly closed WPFO work order report.

FMD is in the process of developing an outstanding WPFO work order report. The report will be distributed to supervisors for follow up and review to insure timely completion. The anticipated completion date is March 30, 2010.

6. Material and Labor Costs

In our sample testing of 50 work orders and contract billings, we found a number of inconsistencies in material and labor charges, as follows:

- a. A contract billing WPFO transaction for \$133,000 from Centennial Contractors was coded to Services-Maintenance sub-object instead of WPFO, resulting in understating the work performed for others account for the year.
- b. Although not charged back to other agencies, three non-reimbursable work orders totaling \$20,653 were being recorded as WPFO in the MP2 system for cost tracking purposes. This could be misleading and result in inaccurate WPFO data.
- c. FMD used a flat labor hour rate of \$30; however, we found multiple instances where \$34 or \$38/hr were charged to agencies for work performed, resulting in inconsistent billings.
- d. One of the work orders was closed in July 2007; however, material and labor costs were charged to the work order as late as October 2007. Charging costs to a work order *after* the close date increases the risk of charging unauthorized costs to jobs.
- e. In one of the work orders, labor hours were adjusted from 65 to 76 but the change was not reflected in MP2 system which still showed 65 hours, affecting the accuracy and reliability of data in the system and billing.
- f. Two purchases of material did not have a vendor receipt to support the costs charged to a work order. Without receipts the propriety of transactions cannot be determined.

Additionally, we selected 15 FMD work orders involving jobs related to key-making. The analysis revealed that charges varied from six minutes to two hours of labor per key. Per discussions with FMD staff, a job like key-making could be very basic to complex, for example, replacing a key for a system furniture unit that had a key broken off and removing the broken key or may be replacing the lock. Although it is known to FMD that each type of key making work is different, it sometimes raises concerns about the fairness of charges and agencies may not appreciate the costs charged.

Inconsistencies and errors in charging and recording material and labor costs results

in under/over stated billings to agencies and inaccurate data in systems for management analysis. Additionally, it may create a perception within county agencies/departments that there is inequity in charging practices.

Recommendation: We recommend that FMD be more diligent throughout the WPFO process, including proper management oversight, review and documentation to ensure accuracy, consistency and reliability of transactions. Accurate management summary reports should be run on a monthly basis and reviewed by supervisors for any discrepancies or unusual activity.

Management Response: See planned actions for number two and number four.

7. WPFO Labor Rate

Discussion with FMD staff noted that a flat labor rate of \$30/hr was being charged for jobs performed related to work orders. They indicated that the justification of this rate was not documented anywhere, and had not been revised for the past eight years. IAO performed calculations to determine the reasonableness of this rate. We used all the FMD employees' data coded as "Skilled Craft" under the Position Category Description in the PEAQ (Point and Click Enterprise Ad-hoc Query) system. We obtained an average pay rate and then added 14% for leave (holidays, sick and annual) per the *Recovered Cost Billing Procedures, Department of Management and Budget*. We did not add the 28.87% fringe benefit rate due to the fact that most departments charged obtained their funding from the general fund. Per discussions with the Department of Management and Budget (DMB), fringe benefits should not be included in the calculation for general fund department. The rate arrived at was \$29.31 per hour. The rate appeared reasonable for current work orders, but high for orders older than 3 years.

Lack of a proper system to justify labor rates used to charge back departments increases the potential for inaccurate billings to agencies and budgeting.

Recommendation: FMD should follow county guidelines and industry standards in arriving at labor rates to ensure that billings to agencies are reasonable. Rates should be reviewed and recalculated on an annual basis to ensure validity. Further, documentation should be maintained regarding labor rate used and the basis used for labor rate calculations.

Management Response: The labor rate will be reviewed annually to ensure validity. Revisions to the rate will be submitted to the Department of Management and Budget for review and approval prior to implementation. Backup documentation supporting the recommended labor rate will be retained for a period of no less than five years to comply with the county's archive policy.