Internal Audit Department

KAREN E. RUSHING
Clerk of the Circuit Court
and County Comptroller
SARASOTA COUNTY

Final Report

Project 2010-35

July 2010

Review of Financial/Compliance Controls in

Facilities Utilization Business Process
Facilities Services Core Service

Sarasota Board of County Commissioners

Mark R. Simmons, CIA CFE - Director, Internal Audit

Mel Scobie, CPA - Senior Internal Auditor in Charge

KAREN E. RUSHING
Clerk of the Circuit Court
and County Comptroller
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2000 Main Street • P.O. Box 3079 .Sarasota, FL 34230-3079 • Phone: 941-861-7400 • www.sarasotaclerk.com

July 20, 2010

Larry Arnold, Executive Director, Community Services
Sarasota Board of County Commissioners

Dear Mr. Arnold:

Enclosed is our report on Facilities Utilization financial and compliance business process activities.

Managers and staff responsible for management controls over Facilities Utilization financial and compliance objectives have processes in place that provide reasonable assurance key business risks can be mitigated effectively.

However, we noted one unauthorized purchase, for which the required After-the-Fact Procurement Form was not completed. We also noted that sales tax and extended warranties were included in some vendor mark-up calculations. Responsible managers have taken actions to address these issues.

Since our report has taken your input and comments into account, a written response to us is not required. We wish to express our appreciation for the cooperation and assistance provided throughout the audit. Please do not hesitate to contact either of us if you have any questions.

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Mel Scobie, CPA
Senior Internal Auditor

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Mark R. Simmons, CIA CFE
Director, Internal Audit

cc: Karen E. Rushing, Clerk of the Circuit Court and County Comptroller
James L. Ley, County Administrator
David R. Bullock, Deputy County Administrator
Jeff Seward, Chief Financial Planning Officer
Mary Sassi-Furtado, Executive Director, Strategic Operations
Peter H. Ramsden, Finance Director, Clerk of the Circuit Court and County Comptroller
Gary Patton, Energy Coordinator, Facilities Services
Donna Parker, Manager, Policy and Project, Facilities Construction
Jennifer Slusarz, Procurement Manager

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Summary

Managers and staff responsible for management controls over Facilities Utilization financial and compliance objectives have processes in place that provide reasonable assurance key business risks can be mitigated effectively. This in turn enhances the high performance capabilities of this organization by improving the likelihood of quality outcomes and services.

We noted one unauthorized purchase, for which the required After-the-Fact Procurement Form was not completed.

We noted that sales tax and extended warranties were included in vendor mark-up calculations.

Inherent Business Risks

"Business Risk" is the likelihood of an event occurring and the resulting impact should the event actually occur. We assessed management control over the following inherent business risks:

1. Loss of Assets/Resources
2. Noncompliance with laws, rules and regulations, or County policies and procedures
3. Unreliable data/Inaccurate reporting

Audit Objective

The objective of our business process review was to determine whether the Board of County Commissioners can have reasonable assurance that responsible managers and employees have identified and addressed the critical risks and vulnerabilities associated with achievement of Facilities Utilization financial and compliance objectives.

Our review assessed the state of management controls as of May 2010 (please read Appendix A on page 5 for our scope and methodology). Our assessment criteria may be read in Appendix F on page 10.

Background

Facilities Utilization Business Processes consist of the following activities:

- Energy/Utilities Management – Organization Codes 31500000 and 31540000
- Facilities Planning – Organization Codes 22640100, 31500000, 31530000 and 31810100

The 2010 fiscal year adopted operating budget for Facilities Utilization services is approximately $7.3 million dollars.

Facilities Utilization Core Services are described in Govmax:

- Facilities Energy/Utilities Management:
  Manage an Energy Plan to set guidelines for containing energy utilization and cost. Define energy goals and increase operational efficiency with occupant education and energy audits.
- Facilities Planning:
  Projects future County building needs and develops plans and schedules and participates in the development of funding strategies to prepare these projects to become Capital Improvement projects (CIP).

- Space Management:
  Offers useful advice, consultation, direction and/or support for space related initiatives in County buildings.
- Property Management:
  Provides property management services including leasing, use policies and commercial building.

Status of Business Risk Mitigation

- Management controls over Facilities Utilization financial and compliance objectives and related risks are effective. Please read Appendix B on page 6 for detailed actions taken to mitigate key financial and compliance risks.
- We judgmentally selected 50 Facilities Utilization purchasing card transactions to test compliance with County policies and procedures. There were no exceptions to our test criteria.
- We judgmentally selected 20 Facilities Utilization check and electronic funds transfer (EFT) transactions to test compliance with County policies and procedures. Please read Detailed Results in Appendix C on page 7 and Appendix D on page 8.

Other Observations

- An invoice for one transaction was not properly linked for review in the OnBase software application. Finance personnel took corrective action following our inquiries.
- At the time of our review, one page agreements were not being obtained when extending annual agreements beyond the contract termination date. Procurement procedures have since been revised. Please read Other Observations in Appendix E on page 9.

Report Distribution List:

Karen E. Rushing, Clerk of the Circuit Court and County Comptroller
James L. Ley, County Administrator
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Peter H. Ramsden, Finance Director, Clerk of the Circuit Court and County Comptroller
Mary Sassi-Furtado, Executive Director, Strategic Operations
Larry Arnold, Executive Director, Community Services
Gary Patton, Energy Coordinator, Facilities Services
Donna Parker, Manager, Policy and Project, Facilities Construction
Jennifer Slusarz, Procurement Manager, Office of Financial Planning

APPENDIX A

Scope and Methodology

To achieve our objective we evaluated key elements of the five components of management control as of May 2010.

The Control Environment

- Conducted interviews with Facilities Utilization Managers to discuss the existence, consistency, and awareness of core values and objectives.
- Evaluated management knowledge and awareness of policies and procedures.
- Discussed the existence of any specific financial and compliance concerns with the Executive Director.

Risk Assessment Practices

- Conducted interviews with Facilities Utilization Managers to discuss risks associated with achievement of financial and compliance objectives.
- Discussed financial and compliance vulnerabilities, and made inquiries regarding risk mitigation strategies and possible opportunities for improvement with the responsible managers.

Control Activities

- Reviewed relevant financial and compliance policies and procedures.
- Evaluated compliance with contractual agreements.
- Performed testing on a judgmental sample of 50 Facilities Utilization purchasing card transactions for compliance with County policies, legal and regulatory requirements.
- Performed testing on a judgmental sample of 20 Facilities Utilization check and electronic funds transfer transactions for compliance with operational policies, legal and regulatory requirements.

Information and Communications

- Evaluated, through interviews with management, whether information and communications were: appropriate, timely, current, accurate, and accessible.
- Established, through interviews and interactions with managers, the adequacy and effectiveness of communication processes.

Monitoring Activities

- Through inquiry, observation, and analysis assessed management's monitoring, oversight, and reporting practices.

APPENDIX B

Detailed Results for Mitigation of Key Financial and Compliance Risks

Inherent Risk #1. Loss of Assets/Resources

Inherent Risk #2. Noncompliance with laws, rules and regulations, or county policies and procedures.

Inherent Risk #3. Unreliable data/Inaccurate reporting

Responsible managers have taken the following actions to mitigate these key risks:

Control Environment

- The Executive Director and managers responsible for managing Facilities Utilization convey integrity, ethical and cultural values to staff.
- Authority and responsibility is properly assigned and activities are properly directed.

Risk Assessment

- Financial and compliance risks are routinely evaluated during regular periodic meetings and by evaluating performance indicators.

Control Activities

- Purchasing card and Purchase Order (PO) transactions are evaluated for compliance with County policies.
- Energy usage is monitored, exception reports are generated, and corrective actions are initiated when necessary.

Information/Communication

- County personnel assigned responsibility for managing Facilities Utilization regularly communicate with upper management to ensure financial and compliance objectives are properly aligned and achieved.

Monitoring Activities

- Building and energy audits are conducted to monitor efficiencies.

APPENDIX C

Detailed Results: Unauthorized Purchase/After-the-Fact Procurement Form

We selected a judgmental sample of 20 check and electronic funds transfer (EFT) transactions to evaluate compliance with laws, rules and regulations, or county policies and procedures. We noted the following:

- Section 10.6.1., Sarasota County Procurement Manual states, “Per Section 2-227 of the Procurement Code, any employee who authorizes the purchase of materials, supplies or services, outside the centralized Procurement system is in violation of County procurement procedures.”

  Section 10.6.2. states, “Purchases authorized prior to the approval of a Purchase Order, shall be considered “after the fact” purchases, and will require the submittal of an “After-The-Fact Procurement Form”.

  Section 10.6.3. provides, “At the discretion of the employee’s manager, general manager or executive director, the unauthorized purchase of materials, supplies or services may result in:
    - Written reprimand;
    - Suspension without pay;
    - Termination of employment”

  We noted that a transaction for heating and cooling services in the amount of $7,769.97 (EFT 00004463) was made without a purchase order, and that an After-The-Fact Procurement Form had not been submitted following the purchase.

  Finance personnel obtained the required After-The-Fact Form following our inquiries.

  Procurement Manager Response – Causes/Corrective Action:

  “It is my understanding that the submittal of an invoice from a vendor triggered the need for an After the Fact Form. Procurement has seen an increase in after the fact purchases in the past few months, many of which appear to be related to purchases that were made under the assumption that a vendor would accept a p-card for payment. I will ask Procurement staff to draft a message to p-card holders communicating the need to adhere to adopted policies guiding p-card purchases. I will also share “after-the-fact” purchasing statistics with the Chief Financial Planning Officer and ask him to share the information with Executive Directors.”

APPENDIX D

Detailed Results: Mark-ups on Sales Tax and Extended Warranties

- We noted that a 10% mark-up on two invoices from Bob Rizi Plumbing (Check numbers 00984335 and 00985926) included the sales tax amount in the mark-up calculations.

  We also noted that a 10% mark-up on three invoices from Myakka Heating and Cooling (EFTs 00004463, 00004958 and 00005180) included the price of extended warranties in the mark-up calculations.

  We made inquiries of Finance personnel and the Procurement Manager as to the business purpose for vendors' mark-ups on sales tax and purchases of extended warranties. Current contract language does not address mark-ups on these items. We suggest that Procurement management consider revising contract language to prohibit mark-ups on sales tax and purchases of extended warranties.

  <u>Procurement Manager Response - Causes/Corrective Action:</u>

  "Most existing annual agreements did not specifically prohibit the markup of sales tax on products. I have drafted language to be added to Procurement's General terms and Conditions (upon approval of Finance and OCA (Office of the County Attorney)) prohibiting the markup of sales tax. I do not believe we can retroactively apply that requirement to existing annual agreements (but will defer to OCA for a final determination).

  Proposed Language, Section 19.0 (Invoicing):

  > Offerors using sub-contractors may not charge more than 10% above actual costs unless specified in the solicitation specifications. Subcontractor's invoices shall be made available to the County as proof of cost upon request.
  >
  > Offerors may not mark up costs of materials more than 10% of the MSRP or actual price paid. Markup shall not be applied to sales tax or warranties. Offeror's invoices must clearly show the manufacturer's part number, description, cost and percent markup cost. A copy of the supply house invoice or MSRP price list must be submitted with the offeror's invoice."

APPENDIX E

Other Observations

- An invoice for one transaction (Check no. 00983036) was not properly linked for review in the OnBase software application. Finance personnel took corrective action to link the document following our inquiries.
- We noted that the Bid Form from Commercial Electric Systems serves as the annual agreement for alarm systems service and maintenance. The Procurement Manager informed us that the County is currently obtaining one page agreements when renewing annual agreements for additional one year periods. At the time of our review, the one page agreements were not being obtained when extending annual agreements beyond the contract termination date.

  Procurement Manager Response – Corrective Action:

  "On June 16, 2010 Procurement adopted an Annual Agreement Extension template that includes a one page agreement to be signed by both parties if an agreement is to be extended beyond the termination date for any reason."

APPENDIX F

Criteria for Evaluation of Management's Control of Business Risk

The Nature of Internal Auditing

Internal auditing is an integral part of the constitutional duties assigned to the Clerk of the Circuit Court and County Comptroller as Auditor of the Board of County Commissioners. The Clerk's internal audit department provides independent, objective assurance, attestation, and other services designed to add value and help improve County operations. This is accomplished by bringing a systematic, disciplined approach to evaluate the effectiveness of County business risk management, control, and business-governance processes. Our audit work is performed under guidance provided by the professional auditing standards of the Institute of Internal Auditors and the U.S. General Accountability Office.

The Nature of Business Risk Management, Control, and Governance Processes

Business risk management, control, and governance processes are all those activities designed and engaged in by the Board of County Commissioners, County Administration, executives, directors, and staff to provide reasonable assurance of (1) reliable financial and operating data and reports, (2) compliance with laws and regulations, (3) effective and efficient business practices, and (4) sound stewardship of the public resources and assets entrusted to them. Reasonable assurance that these core business objectives can be achieved is dependent upon the presence of the five components of management control listed below:

- The Control Environment
- Risk Assessment Practices
- Control Activities
- Information and Communications, and
- Monitoring Activities.

To control business risk, all five components must operate effectively and in unison, and all County employees share in that responsibility. Please read Appendix G, pages 11 and 12, for additional information.

The Nature of Reportable Issues

The Institute of Internal Auditors defines these as situations that are of such significance that they require the attention of the senior leadership.

Critical Conditions

Any condition that has caused, or is likely to cause, errors, omissions, fraud or other adversities of such magnitude as to force immediate corrective actions to mitigate the associated business risk and possible consequent damage to the organization.

Important Conditions

Any condition that has caused, or is likely to cause, errors, omissions or other adversities that increase business risk and possible consequent damage to the organization, but does not require immediate corrective actions to mitigate the associated impact on operations or outcomes. Important conditions require attention within the short term (typically less than one year from disclosure).

The Nature of Opportunities for Enhancement

These represent improvements to the system of management control that the responsible manager may wish to consider as time and resources permit.

APPENDIX F

APPENDIX G

DEFINITION OF MANAGEMENT CONTROL

Management control is broadly defined as a process, affected by managers and other people, that provides reasonable assurance of achieving the three primary objectives for which all businesses strive:

- Effective and efficient operations, including achievement of performance goals and safeguarding of assets against loss
- Compliance with laws and regulations
- Reliable operational and financial data and reports

COMPONENTS NECESSARY FOR EFFECTIVE MANAGEMENT CONTROL

The CONTROL ENVIRONMENT
The foundation for effective control. It sets the tone for the organization, and influences the control consciousness of its people. It addresses:

- Integrity, ethical and cultural values
- Competence of the organizations' people
- The manager's philosophy and operating style
- Assignment of authority and responsibility
- Organization and development of human resources
- The attention and direction given by senior management

RISK ASSESSMENT
The process of recognizing and prioritizing operational risks and obstacles.

- Statement of clear objectives
- Recognition of critical risks and obstacles
- Identification of factors critical for success
- Identification of significant changing conditions

CONTROL ACTIVITIES
Flow from Risk Assessment. Control Activities are the policies and procedures that managers establish to minimize risks and obstacles to desired outcomes. Examples include:

- Guidance, processes and practices
- Safeguarding resources
- Information systems and processing controls
- Approvals, authorizations, verifications, and reconciliations
- Division of work and separation of responsibilities

INFORMATION and COMMUNICATION
Provide the knowledge people need to meet responsibilities.

- The systems of information gathering
- The systems of internal/external communications flowing down, across and up the organization
- Internal and external data for decision-making
- Employees' understanding of their control responsibilities
- Employees' understanding how their work fits into the "big picture"

MONITORING ACTIVITIES
Involve assessment of control effectiveness by appropriate people on a timely basis.

- Measurement of outcomes
- Comparison of expected and actual results
- Performance comparisons and variance analyses
- Review of work assignments
- Upward reporting to senior management of significant concerns and issues

APPENDIX G

APPENDIX G

CRITERIA FOR ASSESSMENT OF EFFECTIVE MANAGEMENT CONTROL

Management control can be judged effective if the responsible managers and senior leadership have reasonable assurance that they understand the extent to which desired outcomes are being achieved; the extent to which operational and financial data is being prepared reliably; and the extent to which legal and regulatory requirements are being met.

This reasonable assurance exists when the five components of control are present and operating effectively. When this happens, the system of control should bring to light and routinely correct any critical or important conditions. These would be events that are likely to cause errors, omissions or other adversities of such magnitude that prompt corrective actions are required to mitigate the associated business risk and possible consequent damage. The expectation is that, in the normal course of operations, critical or important conditions can be identified, addressed and corrected; and not allowed to become persistent or pervasive. When significant issues are not detected and corrected, or when they become persistent or pervasive, then it can be inferred that operations are out of control.

Should any one of the five components of the control framework be absent or seriously flawed, then it would be highly unlikely that effective control could exist. In practice, the need for efficient operations implies that the benefits derived from controls should exceed the cost to implement and maintain control processes. This acknowledges that there is a certain amount of residual risk associated with an effective system of management control.

INHERENT LIMITATIONS

The effectiveness of controls changes over time. Moreover, controls designed to prevent all problems would not be cost effective. Limitations which may hinder the effectiveness of a system of controls include resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by the audit process.

APPENDIX H

Laws, Policies, Rules and Regulations
Sarasota County Procurement Manual
Sarasota County Purchasing Card Policies
Section 287.057, Florida Statutes, Procurement of commodities or contractual services.
Section 287.017, Florida Statutes, Purchasing categories, threshold amounts; procedures for automatic adjustment by department.