

COUNTY AUDIT

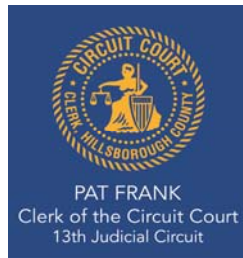
HILLSBOROUGH COUNTY, FLORIDA

REPAIR, REPLACEMENT, RENOVATION & MAINTENANCE (R3M)

PROGRAM

REPORT # 281

APRIL 28, 2015



April 28, 2015

The Honorable Sandra L. Murman, Chairman
The Honorable Kevin Beckner
The Honorable Victor D. Crist
The Honorable Ken Hagan
The Honorable Al Higginbotham
The Honorable Lesley "Les" Miller
The Honorable Stacy White

Dear Chairman Murman and Commissioners:

The Audit Team performed an audit of the Repair, Replacement, Renovation & Maintenance (R3M) Program operations (Audit Report # 281, dated April 28, 2015). Responses to the Audit Team's recommendations were received from the Director of Real Estate and Facilities Services Department and have been included in the Report after each audit comment and recommendation.

The purpose of this Report is to furnish management independent, objective analysis, recommendations, counsel, and information concerning the activities reviewed. It is not an appraisal or rating of management.

Although the Audit Team exercised due professional care in the performance of this audit, this should not be construed to mean that unreported noncompliance or irregularities do not exist. The deterrence of fraud and/or employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that fraud or abuse will be detected.

The Audit Team appreciates the cooperation and professional courtesies extended to the auditors by the Director and personnel of the Real Estate and Facilities Services Department during this audit.

Sincerely,

Peggy Caskey, CIA, CISA, CFE
Director of County Audit

CC: Mike Merrill, County Administrator
Greg Horwedel, Deputy County Administrator
Josh Bellotti, Director, Real Estate and Facilities Services Department
Bruce Dangremond, Performance Mgmt., Management and Budget
Rick VanArsdall, Chief Deputy, Finance

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND INFORMATION	1
OBJECTIVES	1
SCOPE	2
OVERALL EVALUATION.....	2
OPINION	2
AUDITED BY.....	3
AUDIT COMMENTS & RECOMMENDATIONS	4

EXECUTIVE SUMMARY

BACKGROUND INFORMATION

The Repair, Replacement, Renovation, and Maintenance (R3M) Program is under the responsibility of the Real Estate and Facilities Services Department's Repair & Preservation Section (RPS). In November 2014, the RPS was re-aligned under the newly created Architecture & Engineering Services Section.

The purpose of the RPS is to protect the County's investment in infrastructure, reduce the deferred maintenance backlog, control and reduce costs, and maintain public buildings and facilities in a safe and efficient condition. This is accomplished through a two part process:

- 1) Inventory & Assessment; and
- 2) R3M Program.

The R3M Program provides intermediate level construction services ranging in costs from \$5,000 to \$150,000.

Annually, the RPS meets with the various departments to develop the R3M Program's upcoming fiscal year projects. Based on funding availability and workload capabilities, the funded projects are finalized. Throughout the year, a new project request may be submitted. After its evaluation and rating (based on established categories), it will either be placed on the R3M Program's unfunded list, or added as a pop-up project to the current funded list. Pop-up projects are unanticipated requests that may or may not meet the R3M Program's criteria but occur after budget approval and finalization of projects.

OBJECTIVE

The objectives of the audit were to:

1. determine whether or not the County was invoiced the appropriate amounts for miscellaneous contract deliverables and expenditures for the R3M Program; and
2. determine whether or not the R3M Program's planning, assessment, and prioritization process is efficient and effective.

SCOPE

The audit was conducted in accordance with the *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that County Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the audit comments and conclusions based on the audit objectives. County Audit believes that the evidence obtained provides this reasonable basis.

The timeframe covered by this audit was the six month period ending August 31, 2014. The Audit Team evaluated the objectives through observations, interviews, work flow diagrams, control identification, and sample testing.

OVERALL EVALUATION

The Real Estate and Facilities Services Department was responsive to the Audit Team's inquiries and provided thorough information when requested. Information was provided in a prompt and courteous manner. The Audit Team encountered knowledgeable and dedicated employees during the course of the audit.

AUDIT COMMENT	CONCLUSION OF OBJECTIVE	PAGE
1	R3M Program invoices paid by the County were for the appropriate amount and are in compliance with the contract pricing stipulations.	4
2	Opportunities exist to enhance the R3M Program assessment and prioritization processes.	6

OPINION

The R3M Program's control environment is at the formal (defined) maturity level. The RPS has developed and implemented a well structured R3M Program. The R3M Program is aligned with best practices identified for the facilities maintenance and management industry. The invoice and payment process controls are well defined and documented.

Taking corrective action to alleviate concerns identified in this Report will help the RPS improve the efficiency and effectiveness of the R3M Program.

The exit conference was held on March 2, 2015.

Other minor concerns not included in this Report were communicated to management and/or corrected during fieldwork.

AUDITED BY

Peggy Caskey, CIA, CISA, CFE, Director of County Audit

Steve Hooper, CIA, CGAP, CCSA, CFE, Audit Manager

Margaret Brown, CIA, Senior Auditor

Ben Everett, CPA, CIA, Auditor II

AUDIT COMMENTS & RECOMMENDATIONS

AUDIT COMMENT 1.

R3M Program invoices paid by the County were for the appropriate amount and are in compliance with the contract pricing stipulations.

The objective was to determine whether or not the County was invoiced the appropriate amounts for miscellaneous contract deliverables and expenditures for the R3M Program.

The Audit Team conducted interviews with project managers who oversee the R3M Program. The invoicing process was documented in a flowchart to identify the controls in place to ensure the County was invoiced the appropriate amounts.

During the audit period, expenditures totaling \$2,068,370 were made for R3M Projects. For testing, the Audit Team judgmentally selected a sample of 15 expenditures totaling \$467,153 representing 23% of the population. The Audit Team examined the selected expenditures' related contract documents, work order(s), and invoices. The invoices were compared to the contracts and work orders to determine whether or not the invoiced amounts were appropriate. Calculations on the invoices were performed to verify their mathematical accuracy. The Audit Team confirmed that each invoice was signed by the project manager to approve the payment.

The 15 expenditures tested were found to be in compliance with the pricing stipulations in the related contract and work order(s). Documents supporting the expenditures were approved for payment by a project manager, indicating the contracted work performed was satisfactory.

For most R3M Program contracts, vendors must submit invoices in a prescribed format with pre-formatted templates. Those templates must be completed properly by vendors before the payment can be approved. During interviews with project managers, the Audit Team learned that some invoices received from vendors have discrepancies, such as incorrect numerical calculations or incomplete documentation. The Audit Team also learned that vendors are provided little or no instruction during the procurement and award process as to the proper process for preparing and submitting invoices.

As a result, staff from the department formerly known as Fiscal & Support Services - Infrastructure & Development Services (FSS-IDS) would occasionally contact a vendor to request a corrected invoice. In some cases, a formal rejection letter may be issued to the vendor. During the audit period, six rejection letters were sent to vendors. There may be an opportunity to improve the accuracy of invoices by providing guidance to vendors on how to properly prepare the required invoice documents.

RECOMMENDATION

Consideration should be given to developing invoice preparation and submittal instructions for vendors.

CLIENT RESPONSE

Concur

CORRECTIVE ACTION PLAN

An invoice checklist or users guide will be developed to improve the quality of contractor invoices. It will be provided to all miscellaneous contractors upon completion of the checklist or users guide. Following that initial distribution, it will be provided when a new option period is exercised, or when a new contract is established. Should a contractor submit invoices with discrepancies, a special meeting will be established to offer additional review and guidance with the contractor's invoicing staff.

TARGET COMPLETION DATE

July 31, 2015

AUDIT COMMENT 2.**Opportunities exist to enhance the R3M Program's assessment and prioritization processes.**

The objective was to determine whether or not the planning, assessment, and prioritization process for R3M Program projects is efficient and effective.

To test the objective, the Audit Team performed the following:

- Conducted interviews with employees from the RPS.
- Flowcharted the facility inspection/assessment and project prioritization processes.
- Researched best practices for facilities condition assessments, prioritization projects, and project management.
- Compared best practices with established R3M Program practices.
- Analyzed a sample of 30 "pop-up" projects.
- Utilized a root cause analysis technique to identify why there is a growing backlog of R3M Program projects.

The Audit Team reviewed the following:

- Real Estate and Facilities Services' *Policies and Procedures Manual*.
- VFA software user manuals.
- The 2014 R3M Program Project List.

The RPS developed and implemented a R3M Program that is aligned with the industry's best practices. With regards to facility condition assessments, best practices that have been implemented by the RPS include but are not limited to:

- inventorying the County's facility assets;
- maintaining a database of the County's facility assets;
- performing cyclical inspection and assessments of the County's facilities;
- preparing an annual inspection schedule based on prior year facility assessments and derived from the database; and
- developing cost estimates of prescribed corrective actions.

Other best practices include prioritizing projects based on whether or not the identified work is directly tied to the building's Facility Condition Index (FCI) or

the specific entity's total cost of ownership (TCO) – both of which are industry standard benchmarks.

The rating process for the R3M Program is a group effort and is not performed by one individual. Final selection of R3M Program project work is based on these rankings and the amount of funding available. Not all R3M Program requirements identified are immediately transformed into a funded project. The work identified during the annual inspection and assessment process forms the basis of the *R3M Unfunded Project List*. The identified requirements must be further prioritized before identifying and developing a list of projects that will be funded.

Regarding prioritization, the work identified through the facility assessment process is prioritized using a structured approach by rating the identified work against an established set of criteria based on the R3M Program's goals and objectives. The ratings assigned are defined as "imminent failure," "exceeded life expectancy," "excessive maintenance costs," and "program needs." Each rating is weighted according to the criterion being rated.

The test results indicate that:

1. Pop-up project requests are not in writing. Thus, pop-up project requests are not vetted through the normal R3M Program project assessment and prioritization process. Pop-up projects displace the work identified on the funded R3M Program list.

Per Section 5.3.4 of the Real Estate and Facilities Services' *Policies and Procedures Manual*, all new project requests must have a scope of work submitted in writing unless an emergency situation or work stoppage situation exists. As a result of addressing the increasing number of pop-up project requests, the number of funded R3M Program projects identified is "carried over" to the next year. This "carry-over" limits the addition of newly identified R3M Program requirements to be funded in the following year.

2. Of the 30 pop-up projects reviewed, 23 (or 77%) met the criteria for a R3M project based on the scope of the work performed. Of the seven projects that did not meet the criteria:
 - Six were initiated to make functional or operational changes to the facility.
 - One increased the square footage of office space.

Per Section 5 of the *Policies and Procedures Manual*, the R3M Program is not intended to replace recurring operations and maintenance activities, increase the capacity or square footage of facilities, increase the level of service to the community, or make functional or operational changes to facilities.

3. The County's Intranet (COIN) states that "typical (R3M) projects are large in nature \$5,000 to \$150,000..." However, there is no Board of County Commissioners or Real Estate and Facilities Services written guiding principles that limits R3M Program projects to the \$150,000 cap that was verbally communicated to the Audit Team. The *Policies and Procedures Manual* (Section 5.3) states that "R3M projects are essentially intermediate maintenance projects."

The Audit Team reviewed the *FY 14 R3M Projects List* and identified 245 projects with work order costs ranging from \$900 to \$1,500,000. Of the 245 projects listed, 6 had a listed work order cost less than \$5,000 and 27 had a work order cost of greater than \$150,000. The 27 projects were capital projects funded by R3M. These projects were properly vetted through the capital project process but require progress tracking by RPS personnel.

4. Communication between Repair and Preservation (R3M) and Operations and Maintenance (Facilities Services) could be enhanced. R3M uses a software application to identify and assess the County's facility inventory. However, Facilities Services uses a separate software application to issue work orders and to track labor and material usage. Work performed and documented by Facilities Services is not made known to R3M. Repair work and/or improvement may not be identified by R3M inspectors for months or years.
5. The use of the various R3M related construction contracts by other County departments for work not pertaining to the R3M Program negatively affects the R3M Program project schedule. The schedule is affected by reduced dollar capacity and contract duration available to the R3M Program projects.

RECOMMENDATION

Consideration should be given to:

1. Developing and implementing a written guiding principle to establish criteria for R3M Program project dollar range. This may require revisiting the intent and purpose of the R3M Program regarding project size and duration. The directive should include re-enforcement to Section 5 of the Real Estate and Facilities Services' *Policies and Procedures Manual*. It requires all new project requests to be in writing, unless it is an emergency situation or a work stoppage situation. R3M should not be used for purposes inconsistent with the Policies and Procedures Manual's stated purpose.
2. Implementing industry best practices of ranking the funded projects listed on the R3M Project Schedule and identifying project benefits in addition to estimated project work order costs, such as a reduction in future maintenance costs.
3. Developing and implementing a process whereby personnel from the R3M Program and Operations and Maintenance (Facilities Services) communicates with each other on a regular basis. Sharing information between the two sections will be beneficial in coordinating work efforts.
4. Increasing the dollar capacity of service contracts with stipulations that identify a specific percentage or dollar amount restricted to R3M Program funding. The remaining portion could be made available to others for non-R3M Program related work, payable from sources identified by the other party.

CLIENT RESPONSE

1. *Concur*
2. *Concur*
3. *Concur*
4. *Concur*

CORRECTIVE ACTION PLAN

1. Management Response (project size and duration)

The Architecture and Engineering Services Section follows BOCC Board Policy 03.02.02.00 (effective January 17, 2001) to execute R3M projects that exceed \$150,000. This policy states that a Major Repair, Renovation

or Replacement Capital Project is a project over \$100,000 intended to preserve or enhance the operational condition of an existing facility and may increase the capacity of the facility. While this policy's written dollar threshold requires an update, the current practice for this policy is \$150,000.

There is no written policy that prevents R3M from executing projects that are less than \$5,000. In practice, these projects are necessary for contracted engineering studies and reports that better quantify or evaluate the scope of a currently planned and prioritized project.

There is no written policy that limits R3M from executing projects that are longer in duration than 12 months. The funding threshold of \$150,000 is the mechanism that limits the size and in turn the duration of projects. Projects over that threshold are executed as Capital projects.

Corrective Action Plan: *The Real Estate and Facilities Services Department's intent is to submit a recommendation to update BOCC Board Policy 03.02.02.00 from \$100,000 to the current \$150,000 threshold that defines a Major Repair, Renovation or Replacement Capital Project.*

The Real Estate and Facilities Services Department will update Chapter 5 of the Real Estate and Facilities Policies and Procedures Manual with a reference to Board Policy 03.02.02.00. Chapter 5 will also be revised to state that projects under \$5,000 are authorized for any contracted engineering study or facility evaluation that is necessary for the delivery of an R3M project. And finally unless a project is an emergency correcting an immediate life safety issue or urgent facility damage (i.e. pipe burst, mechanical system failure, etc), Chapter 5 will reiterate that all requests for new or modified R3M projects must be in writing and approved by the requesting department's Director.

2. Management Response (Implementing industry best practices)

As an improvement to the R3M prioritization process, project ranking numbers will be added to the project tracking spreadsheet to continue to track the original prioritization number and any subsequent changes to it throughout the year. Once in the project tracking spreadsheet some project prioritization numbers will appear out of sequence should they have a seasonal construction window (roofs for example) or have to be executed to accommodate a building occupant's operational calendar

The project benefits will be identified during project scoping and ranking process. The project ranking directly reflects the project benefits (reduced future maintenance, improved safety, etc) and would be recorded in the PIF.

3. Management Response (mutual sharing of information among CIP, O&M and R3M)

The new Architecture & Engineering (A&E) Services Section was established to facilitate information sharing not only internally between the Capital Projects program and R3M, but also between the A&E Section and the Operations and Maintenance Section.

Corrective Action Plan: *The A&E Section will establish a Configuration Management Plan that will include the processes by which additions and deletions to the County's owned portfolio of assets can be documented, communicated and logged in various data systems. This plan will also establish a Configuration Management Group that will meet to review the documented information and ensure that it is being captured accordingly.*

4. Management Response (increasing the dollar capacity of Misc. contracts)

The current R3M process is able to forecast future year(s) repair and preservation workloads and cost estimates. In addition, we reach out to other departments to determine their expected upcoming annual needs to establish an accurate total miscellaneous contract capacity.

To meet this total capacity, we establish multiple, overlapping Miscellaneous contracts to spread this level of capacity across a number contractors and performance periods. As a best practice, R3M projects are awarded across the pool of contractors keeping dollar values as equal and balanced as possible to provide a wider economic opportunity throughout the area.

Increasing contract capacity is one approach to ensure R3M does not run out of contract capacity. However, unless the projects are identified up front, this could place an additional financial burden on the miscellaneous contractors by requiring them to have to purchase higher bonding capacity, which would be an unnecessary cost should this added capacity not be consumed. Our preferred method should we

become capacity limited mid-year, would be to exercise a new contract option along with its new capacity. Then prior to the next fiscal year, the total capacity forecast would be revisited to decide if any new Miscellaneous contracts should be solicited to add more capacity or to replace expiring contract capacity.

TARGET COMPLETION DATE

1. *Policy updates and revisions – July 31, 2015*
2. *Add project ranking numbers to the project tracking spreadsheet – May 29, 2015*
3. *Develop a Configuration Management Plan – September 30, 2015*
4. *Complete*