

**Follow-up Review  
of  
Term Contracts**

**Report by the  
Office of County Comptroller**

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January 24, 2001

Richard T. Crotty, County Chairman  
And  
Board of County Commissioners

We have conducted a follow-up to the Limited Review of Term Contracts. Our original review included the period of October 1, 1996 through December 31, 1996. Testing of the status of the previous Recommendations For Improvement was performed for the period October 1, 1998 through September 30, 1999. We also reviewed additional matters that came up during the Follow-up. Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

The accompanying Follow-up to Previous Recommendations For Improvement presents a summary of the previous condition and the previous recommendation. Following the recommendations is a summary of the current status as determined in this review. In addition, we found other concerns during our Follow-up that are presented in the Recommendations For Improvement section following the status of the Previous Recommendations For Improvement.

Responses to our Recommendations For Improvement were requested from the Orange County Purchasing and Contracts Division, the Orange County Comptroller's Finance and Accounting Department, Public Utilities Division and the Orange County Convention Center. We appreciate the cooperation of the personnel of these departments during the course of the audit.

Martha O. Haynie, CPA  
County Comptroller

c: Ajit Lalchandani, County Administrator  
Tom Ackert, Executive Director of the Convention Center  
Mike Chandler, Director of the Public Utilities Division  
Johnny Richardson, Chief of Purchasing and Contracts  
Paul Wunderlich, Director, Comptroller's Finance and Accounting Department

**IMPLEMENTATION STATUS OF  
PREVIOUS RECOMMENDATIONS FOR  
IMPROVEMENT**

**FOLLOW-UP REVIEW OF TERM CONTRACTS  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1.	We recommend the following:				
A)	Divisions, specifically Facilities Management, Construction Administration and the Convention Center Facilities Management, use term contracts to perform only those services within the scope of the contract. Services to be provided that exceed the scope of the term contract must be requested and obtained through the procedures set forth in the Orange County Purchasing Procedures Manual.		X		
B)	The Purchasing and Contracts Division continue to monitor term contracts to ensure adherence to County procedures regarding scope of services for term contracts. In addition, a clause should be included in term contracts regarding services performed by subcontractors.		X		
C)	The Comptroller's Finance and Accounting Accounts Payable Section process payments according to the provisions of the term contract regarding the scope of services by the vendor.		X		
2.	We recommend the Comptroller's Finance and Accounting Accounts Payable Section ensures that detailed invoices, identifying the specific number of labor hours at the specified labor rate and costs of materials, are submitted before payment is made on term contracts.			X	

**FOLLOW-UP REVIEW OF TERM CONTRACTS  
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
3.	We recommend the following:				
A)	Facilities Management and the Convention Center Facilities Management approve work at rates and charges according to the terms of the contract.			X	
B)	The Purchasing and Contracts Division seeks a net reimbursement of \$7,366.74 from Mechanical Services and a total of \$174.80 (\$86.00 + \$88.80) from Modern Plumbing for amounts over charged.	X			
C)	The Comptroller's Finance and Accounting Accounts Payable Section only submit accurate payments according to the terms of the contract and ensure documentation is present to support charges.			X	

# INTRODUCTION

**Scope and  
Methodology**

The audit scope consisted of a follow-up to the previous Limited Review of Term Contracts dated March 1998. Testing of the status of the previous recommendations was performed for the period October 1, 1998 through September 30, 1999. Also, certain other matters occurring outside the audit period were reviewed.

The audit methodology included choosing a sample of two current term contracts and reviewing selected release orders to ensure services were within the scope of the contract and that payments were made according to the terms of the contract. We could not perform testing on the two contracts in the previous audit (Y4-170B, Mechanical Services of Orlando, Inc. and Y4-198, Modern Plumbing Industries, Inc.) because the contracts had expired.

The two contracts chosen were Y6-181 and Y6-1006. The scope of services for Y6-181 included HVAC preventative maintenance, inspections, and repairs for certain Orange County sites listed in the contract. The scope of services for Y6-1006 included HVAC maintenance and repair services at the Orange County Convention Center.

To determine if services were within the scope of the contract, we selected a sample of release orders paid in the audit period for the two contracts noted above and compared the services rendered to the scope of work as stated in the contract.

To ensure payments were made according to the terms of the contract, we reviewed payments made on a sample of paid release orders and examined supporting documentation to determine if payment was accurate and according to contract terms.

In addition, during our Follow-up we found other concerns that are presented in the report after the status of the Previous Recommendations For Improvement.



**FOLLOW-UP TO PREVIOUS  
RECOMMENDATIONS FOR  
IMPROVEMENT**



**1. Services Were Performed Outside The Scope Of  
Term Contracts**

During the previous review, we found that services were performed outside the scope of the contract. We noted the following:

- A) Sixty-seven percent (10 of 15) of the release orders examined for Mechanical Services of Orlando, Inc. (Mechanical Services) were for services that exceeded the scope of the contract. Further, 27 percent (6 of 22) of the invoices paid on release orders reviewed included billings for subcontracted work performed, which was not specified in the contract.
- B) Twenty-four percent (4 of 17) of the release orders examined for Modern Plumbing Industries, Inc. (Modern Plumbing) were for services that exceeded the scope of the contract. In addition, we found that 12 percent (2 of 17) of the invoices paid on release orders reviewed had subcontracted work performed, which was not specified in the contract.

Neither term contract addressed the use of subcontractors to perform services associated with the contract.

**We Recommend** the following:

- A) Divisions, specifically Facilities Management, Construction Administration and the Convention Center Facilities Management, use term contracts to perform only those services within the scope of the contract. Services to be provided that exceed the scope of the term contract must be requested and obtained through the procedures set forth in the Orange County Purchasing Procedures Manual.
- B) The Purchasing and Contracts Division continue to monitor term contracts to ensure adherence to County procedures regarding scope of services for term



contracts. In addition, a clause should be included in term contracts regarding services performed by subcontractors.

- C) The Comptroller's Finance and Accounting Accounts Payable Section process payments according to the provisions of the term contract regarding the scope of services by the vendor.

**Status:**

Partially implemented. We found 22 percent (4 of 18) of the invoices reviewed that were paid from Term Contract Y6-181 had services authorized and paid by the County that exceeded the scope of the contract. The contract specified certain Orange County locations that were allowed to use the contract; however, one site, Northwest Water Reclamation Facility, had services rendered by the contractor, but was not listed on the term contract. An addendum should be added to the current term contract to include the Northwest Water Reclamation Facility. Invoices reviewed that were paid under Term Contract Y6-1006 did not contain services that exceeded the scope of the contract.

Since the contracts were written before the release of the prior audit report, we reviewed four current contracts to ensure a clause was present regarding services performed by subcontractors. We found that all of these contracts contained a clause prohibiting the subcontracting of services.

**We Recommend** the Purchasing and Contracts Division add the Northwest Water Reclamation Facility to Term Contract Y6-181 in an addendum.

**Response from Purchasing:**

The monitoring of term contracts by the Purchasing and Contracts Division continues to be an ongoing effort. Also, Contract Y6-181 has expired.



**Auditor's Comment:**

Although Contract Y6-181 has expired, we would recommend that the Northwest Water Reclamation Facility site be added to the replacement contract if it is foreseeable that work will be performed at that location.

**2. Term Contract Invoices Should Be Detailed As To Material And Labor Cost**

During our previous review of term contracts, we found the following instances where detailed invoices were not submitted for payment:

- A) Twenty-seven percent (6 of 22) of the payments made to Mechanical Services did not have detailed invoices or quotations to verify that costs were based upon contract terms.
- B) Twenty-four percent (4 of 17) of the payments made to Modern Plumbing did not have detailed invoices or quotations to verify that costs were based on contract terms.

We were unable to determine if the amounts charged were computed based upon contract terms for labor rates and material charges. Without such detail of costs, it is impossible to verify compliance with contract terms and the reasonableness of the costs for services and materials provided.

**We Recommend** the Comptroller's Finance and Accounting Accounts Payable Section ensures that detailed invoices, identifying the specific number of labor hours at the specified labor rate and costs of materials, are submitted before payment is made on term contracts.



**Status:**

Not implemented. Forty-four percent (8 of 18) of the invoices reviewed that were paid under Term Contract Y6-181 did not break out labor costs or material charges of services provided. We were unable to determine if the amounts charged were computed based upon contract terms for labor rates and material charges. In addition, for Term Contract Y6-1006, we found that one of the eleven paid invoices (for \$7,066) did not contain enough information to ensure charges were according to contract terms. Without invoices specifying the number of hours at the specified labor rate and costs of materials, we could not determine compliance with contract terms or reasonableness of the costs for services and materials provided.

**We Again Recommend** the Comptroller's Finance and Accounting Accounts Payable Section ensures that detailed term contract invoices, identifying the specific number of labor hours at the specified labor rate and costs of materials, are submitted before payment is made.

**Response from Finance and Accounting:**

As in the original audit, we concur with this recommendation. It has been a longstanding procedure in the Finance and Accounting Department to review invoices to corresponding pricing in the term contract and to assure that sufficient detail is provided. If the invoice references a written quotation or release order sufficiently detailed to pre-audit against the contract terms, we would consider that acceptable as well. But, as noted in our original response, these reviews are made on a spot check basis. The eight exceptions for contract Y6-181 noted in the follow-up audit were lump sum quotes for relatively small jobs (adding up to a total of less than \$5,000), with some below our spot check threshold. The single exception noted for contract Y6-1006 represents an oversight. With the revised accounts payable process that we implemented in February of 2000, we have been able to expand our review process of term contract invoices.



**3. Improper Payments Were Made On Term Contracts**

During our previous review, we found instances where amounts paid were not accurate or not supported. We noted the following:

- A) We found \$7,366 of payments were made in error to Mechanical Services. In addition, supporting documentation was not submitted with one invoice having charges for materials of \$1,588; therefore, we could not determine if the correct amount was charged and paid for materials.
- B) Twenty-five percent (4 of 16) of the purchases examined for Modern Plumbing had labor charges that were not computed on the contracted labor rate structure. In four instances, the contractor charged for helper/apprentice work before the Amendment was approved to add the helper/apprentice hourly rate of \$20.00.

In other instances, we noted the following:

- The contractor over charged \$86.00 for work performed by a plumber (Release Order No. 91177 dated September 13, 1996, Convention Center).
- We could not determine in one other instance whether the labor charge was correct due to costs being invoiced in one lump sum (Release Order No. 89569 dated August 8, 1996, Facilities Management).
- A total of \$88.80 was charged and paid in error for the markup of materials and a permit fee. Nothing in the contract specified a markup of materials or labor.



**We Recommend** the following:

- A) Facilities Management and the Convention Center Facilities Management approve work at rates and charges according to the terms of the contract.
- B) The Purchasing and Contracts Division seeks a net reimbursement of \$7,366.74 from Mechanical Services and a total of \$174.80 (\$86.00 + \$88.80) from Modern Plumbing for amounts over charged.
- C) The Comptroller's Finance and Accounting Accounts Payable Section only submit accurate payments according to the terms of the contract and ensure documentation is present to support charges.

**Status:**

- A) Not implemented. We could not determine in 61 percent (11 of 18) of the invoices reviewed that were paid under Term Contract Y6-181 if amounts charged for materials agreed with approved contract charges. In seven of the 11 invoices, this determination could not be made because an ARH pricing directory was not present at the department which had the work done, or at the Purchasing and Contracts Division. The contract specifies that repairs/replacements shall be priced on an hourly labor rate plus material less a 20 percent discount from the ARH Directory. Two of these invoices had a 15 percent markup on material listed, which was not priced according to contract terms. Contract pricing for the other four invoices could not be determined because amounts for services performed for the recipient of HVAC services, Northwest Water Reclamation, were not listed in the contract.

In addition, we could not determine in 100 percent (11 of 11) of the invoices reviewed that were paid under Term Contract Y6-1006 if material charges were according to contract terms. None of the invoices



specified what materials were used or the cost of specific materials used. Also, the contract specifies that parts will be at a 10 percent discount from the ARH Directory. The ARH Directory was not present at the departments which had the work done or at the Purchasing and Contracts Division.

According to Section V of the Purchasing Manual, a term contract is a formal contract issued for a specific time period as a result of a competitive bid process for specific items. The objective of a competitive bid process is to obtain goods and services at the lowest price consistent with quality performance, while maintaining open and fair competition. The contracts reviewed specified that materials are to be priced at a specified discount from the ARH Directory. Since the ARH Directory was not available to verify if the costs of materials were in accordance with contract terms, we could not determine if the County received materials at the best price and that open and fair competition was present.

**We Again Recommend** Divisions under the Public Utilities Department and the Convention Center having services performed under term contracts approve work at rates and charges according to the terms of the contract. We also recommend that the Purchasing and Contracts Division work with County departments when obtaining bids and issuing term contracts to ensure only pertinent reference items are required to price out labor and materials.

**Response from the Utilities Department:**

We concur with the recommendation that work performed under term contracts is to be approved at rates and charges according to the contract.

- B) Implemented. The Purchasing and Contracts Division obtained the full reimbursement of \$174.80 from Modern Plumbing Industries, Inc. on April 13, 1998.





However, Mechanical Services of Orlando, Inc. only paid \$3,271.49 of the \$7,366.74 on April 13, 1998, due to the fact that they disagreed with reimbursing the markup of subcontracted work totaling \$4,095.25. Although the full amount was not paid, we feel that their justification is acceptable because of documented change orders approved by the County.

- C) Not implemented. As stated in Recommendation No. 3A above, we could not determine in 61 percent (11 of 18) of the invoices reviewed that were paid under Term Contract Y6-181 if amounts charged agreed with approved contract rates and charges. Pricing on seven of the 11 invoices could not be determined because an ARH pricing directory was not present in the department having the work done or the Purchasing and Contracts Division to verify if material charges were according to contract terms. Contract pricing for the other four invoices could not be determined because amounts for services performed for the recipient of HVAC services, Northwest Water Reclamation, were not listed in the contract. In addition, we could not determine in 100 percent (11 of 11) of the invoices reviewed that were paid under Term Contract Y6-1006 if material charges were according to contract terms. None of the invoices specified what materials were used or the cost of specific materials used. Also, the contract specifies that parts will be at a 10 percent discount from the ARH Directory. Since the payments were not compared to the ARH Directory by the Comptroller's Finance and Accounting Department, the accuracy of the payments was not verified.

**We Again Recommend** the Comptroller's Finance and Accounting Accounts Payable Section only submit accurate payments according to the terms of the contract and ensure documentation is present to support charges.



**Response from Finance and Accounting:**

As in the original audit, we concur with this recommendation. It has been a longstanding procedure in the Finance and Accounting Department to make all term contract payments in accordance with their terms. However, the exception noted in this follow-up audit is not one that we can feasibly address. It would entail our department acquiring and maintaining sales catalogues and directories for a multitude of parts and supplies. Such documents are updated one to two times per year and many are not free of charge. And, because we are not a part of the bidding process, we have no input into the administrative reasonableness of the pricing standards being utilized. Therefore, our current procedure is to rely on the Purchasing Division and the user divisions to verify the accuracy of the prices with the corresponding catalogue or directory.

# RECOMMENDATIONS FOR IMPROVEMENT

**FOLLOW-UP REVIEW OF TERM CONTRACTS  
ACTION PLAN**

NO.	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS		RECOMMENDATIONS
	CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED	
1.	X				X	We recommend the Purchasing and Contracts Division review charges and seek reimbursement for amounts not allowed per contract terms. In addition, term contracts should include a clause that ensures vendors maintain support documentation for amounts charged to the County.
2.	X			X		We recommend the Convention Center ensures a release order is issued before obtaining goods or services.
3.	X			X		We recommend the Convention Center and the Purchasing and Contracts Division ensure changes to term contracts are authorized by the appropriate parties as specified in Section X of the Orange County Purchasing Manual.



***During our Follow-up Review of Term Contracts, we noted other concerns relating to Term Contract Y6-181 and Y6-1006. The following are the related Recommendations For Improvement:***

**1. Payments Were Made For Materials Not Provided For In The Terms Of The Contract**

Material Costs  
Should Agree  
With Contract  
Terms

As noted in Previous Recommendation For Improvement No. 3A above, we could not determine whether material charges were according to contract terms since an ARH Directory was not available from the department having the services provided, or the Purchasing and Contracts Division. We requested additional support documentation from the contractors for materials charged on jobs relating to selected invoices reviewed to determine if amounts charged were reasonable. Relating to this, we noted the following concerns:

- A) The contractor of Term Contract Y6-181 could not produce any support documentation for the 18 invoices reviewed. Nothing in the contract requires the vendor to maintain support documentation to verify charges. A clause should be included in the term contract requiring vendors to maintain support documentation for amounts charged to the County.
- B) We noted five invoices, paid to the contractor for Term Contract Y6-1006, which had support documentation for material charges that were not according to contract terms. These items included charges for cell phones, fuel, and a performance bond. See the following table for these charges:

Item	Release Order No.	Check No.	Total Project Cost	Total Over-charge
Phone Bill	127964	840905	16,612.20	56.98
Phone Bill	131038	163132	5,127.48	22.01
Fuel	127964	840905	16,612.20	115.00
Fuel	131038	163132	5,127.48	187.01
Performance Bond	131038	163132	5,127.48	258.00
			Total	\$639.00



The term contracts reviewed were for charges relating to HVAC preventative maintenance, inspections, and repairs. The items listed above are not related to HVAC services were not specified in the term contract.

**We Recommend** the Purchasing and Contracts Division review charges and seek reimbursement for amounts not allowed per contract terms. In addition, term contracts should include a clause that ensures vendors maintain support documentation for amounts charged to the County.

**Response from Purchasing:**

This contract was written to give the users the ability to order services directly from the contractor without the direct involvement of the Purchasing and Contracts Division. The users issue release orders based on contractually established prices/rates for various services. The contractor is paid based on the invoice and the release order as confirmed by the user's receiving report. Although the Purchasing and Contracts Division was not involved in the payment of this order, we will issue a demand for reimbursement to the County of the overcharged amount.

To address this situation on a long-term basis, the structure and administration of contracts for contractual services of this nature have been revised. For example, pricing in the current contract for electrical maintenance services is based strictly on the applicable R. S. Means Catalog factored by contractor's coefficient. Moreover, the users will no longer issue orders. The Purchasing and Contracts Division will issue all orders after verification of costs and scope. The same procedure will be applied to the HVAC Repair and Replacement contract expected to be executed in the near future.



Services  
Provided Before  
Release Order  
Issued

**2. Services Were Provided Before The Release Order Was Issued**

We found that 82 percent (9 of 11) of the invoices issued on Term Contract Y6-1006 were dated before the release order date. We were informed by the contractor that work was performed in some instances before the issuance of a release order. As such, work was performed at the Convention Center without proper purchasing procedures being followed. The Orange County Purchasing Manual provides that departments may order directly from the term contract via issuance of a release order directly for the item required. Issuance of a release order authorizes departments to obtain goods and services from a term contract for specific items. Completion of a release order prior to receipt of goods and services ensures they meet the contracts' terms and conditions.

**We Recommend** the Convention Center ensures a release order is issued before obtaining goods or services.

**Response from the Convention Center:**

We Concur. Procedures have been implemented to ensure proper sequence of services and paperwork. Emergency repairs will be the exception and proper paperwork will follow within 24 hours.

**Response from Purchasing:**

Although this recommendation was made to the Convention Center, the changes specified in our response to Recommendation For Improvement No. 1 will also address this situation.

**3. Terms and Conditions of Term Contract #Y6-1006 Were Changed Without Proper Approval**

We found that terms and conditions were changed in Term Contract Y6-1006 by mutual agreement between



**Contract Terms  
Changed Without  
Proper Approval**

representatives of the Convention Center and the contractor without proper approval. An agreement to change the terms of the contract on parts to a markup of 15 percent was initiated by the contractor, and signed by employees of the Convention Center. The term contract states that the contractor will use a 10 percent discount from the ARH Directory when pricing parts. According to Section X of the Orange County Purchasing Manual, the Chief of Purchasing and Contracts may authorize changes or amendments for construction, and goods and/or services within the overall scope of the project of procurement of up to a cumulative amount of five percent (5 percent) or fifty thousand dollars (\$50,000), whichever is higher. If the amendment/change order exceeds the maximum amounts herein, the amount of the amendment/change order must be approved by the Board of County Commissioners. These changes to the term contract noted above were not authorized by the Purchasing and Contracts Division or by the Board of County Commissioners.

We could not determine the differences, if any, between what was charged (15 percent markup) and the amount that should have been charged (10 percent discount from the ARH Directory), since the ARH Directory was not available (as stated in the Previous Recommendation For Improvement No. 3A). We also could not determine if the costs of materials were according to the term contract or if open and fair competition was present.

**We Recommend** the Convention Center and the Purchasing and Contracts Division ensure changes to term contracts are authorized by the appropriate parties as specified in Section X of the Orange County Purchasing Manual.

**Response from the Convention Center:**

We concur. Proper pricing guidelines for follow-up on contracts have been established utilizing RS Means and no changes will be made without Purchasing approval.





**Response from Purchasing:**

These changes were made by the Convention Center with the contractor unbeknownst to the Purchasing and Contracts Division. However, the changes described in our response to Recommendation For Improvement No. 1 is an adequate response to this situation.