



January 8, 2016

B & Y Pest Control, Inc. Vendor Audit - City Report

Citywide

Report No. 15-105



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT**

AUDIT REPORT
B&Y PEST CONTROL
CITYWIDE
REPORT NO. 15-105

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B & Y Pest Control, Inc.

Citywide Vendor Audit

1/8/2016

Audit #15-105

The purpose of this audit was to review and report on B&Y Pest Control, Inc. contract compliance for the 18-month period July 1, 2013 through December 31, 2014.

Executive Summary

The Office of Internal Audit (OIA) conducted a citywide vendor audit of B&Y Pest Control, Inc. (B&Y). Vendor audits are included in OIA's fiscal year (FY) 2015 audit plan and the City's Department of Finance & Administrative Services (DFAS) requested that B&Y be considered for an audit. In the midst of the audit, B&Y's contract with the City of Albuquerque (City) expired and DFAS did not renew the contract. As the audit was already underway and the City had received multiple complaints from various City departments pertaining to B&Y's services and billings, OIA continued and completed the audit. Some of the departments' complaints against B&Y involved inaccurate billings, unperformed services, and falsified records. The City paid B&Y more than \$105,000 for pest control services during the 18-month audit period. B&Y overbilled the City \$13,692 during that period.

The CAO and DFAS agree with the findings and acknowledge the importance of reviewing invoices for accuracy and ensuring proof of service exists prior to authorizing payments.

Findings

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The audit found that:

- B&Y Pest Control billed the City inaccurately on multiple instances;
- City departments had not verified the accuracy of invoices or required proof of service prior to approving invoices for payment; and
- DFAS – Purchasing had not investigated departments' complaints regarding B&Y Pest Control timely.

Recommendations

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The CAO should:

- Instruct DFAS to issue an invoice to B&Y for the \$13,692 overpayment; and
- Emphasize to City departments the importance of reviewing invoices for accuracy and obtaining proof of service prior to approving payment.

DFAS-Purchasing should:

- Investigate departments' complaints timely and refer allegations of vendor fraud to the Office of Inspector General.



City of Albuquerque

Office of Internal Audit

January 8, 2016

Accountability in Government Oversight Committee
P.O. Box 1293
Albuquerque, New Mexico 87103

Audit: Vendor Audit - Citywide
B & Y Pest Control, Inc.
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FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a citywide vendor audit of B&Y Pest Control, Inc. (B&Y). Vendor audits are included in OIA's fiscal year (FY) 2015 audit plan and the City's Department of Finance & Administrative Services (DFAS) requested that B&Y be considered for audit. Information pertaining to the audit objectives, scope and methodology can be found in **Appendix A**. The audit period addressed the 18-month period July 1, 2013 through December 31, 2014. A report on B&Y compliance with its contract has been issued separately.

B&Y is a family-owned, locally operated company in Albuquerque. Reportedly, the company has been serving the City of Albuquerque (City) for more than 20 years. The three-year contract in place between B&Y and the City at the time of the audit included pest control services for nine City departments and was effective October 18, 2011 through October 17, 2014 with an option to extend for two additional 12-month periods, or any part of a month by mutual agreement.

In the midst of the audit, B&Y's contract with the City expired and DFAS did not renew the contract. As the audit was already underway and the City had received multiple complaints from various City departments pertaining to B&Y's services and billings, OIA continued and completed the audit. The City paid B&Y over \$105,000 for pest control services during the 18-month audit period.

FINDINGS

The following findings concern areas that OIA believes could be improved by the implementation of the related recommendations.

1. THE CAO SHOULD REMIND USER DEPARTMENTS TO VERIFY AND ENSURE THE ACCURACY OF VENDOR INVOICES PRIOR TO AUTHORIZING PAYMENT.

Inaccurate billings were identified. Two samples of invoices were selected for testing – a statistical random sample of 23 invoices and a judgmental sample of 12 invoices. From the 35 invoices selected, eight invoices (four from each sample) contained inaccurate billings. Seven of the eight inaccuracies identified were overcharges to the City and totaled \$646.41.

To accurately extrapolate to the entire population, only the information from the random sample was used. Of the 23 randomly sampled invoices, four contained overcharges to the City and totaled \$359.71 as calculated below.

Invoice Overcharges

Invoice #	Date	Amount Billed	Correct Amount	Overcharge	Reason for Overcharge
52964	7/29/14	\$85.59	\$64.20	\$21.39	B&Y billed the City a higher rate
50635	10/29/13	\$329.50	\$69.55	\$190.40*	B&Y billed the City \$65.90/visit (5 visits) rather than \$69.55/month*
52027	4/29/14	\$195	\$57.78	\$137.22	B&Y billed the City \$65/location (3 locations) rather than \$19.26 each/quarter
52284	5/29/14	\$69.55	\$58.85	\$10.70	B&Y billed the City a higher rate
Total Overcharge				\$359.71	
* According to B&Y and the Parks & Recreation Department, weekly services were requested in preparation for Balloon Fiesta. Three of service dates invoiced were after balloon fiesta. No documentation was available for either the request or approval of the weekly services. Therefore, the three dates serviced after balloon fiesta are disallowed and considered overcharges.					

The calculated sample error rate is 13 percent (Total error \$359.71/\$2,758.56 total value

of randomly sampled invoices). By applying the 13 percent error rate to the entire \$105,000 paid to B&Y over the 18-month audit period, it can be reasonably estimated that the City overpaid B&Y \$13,692.

Of the 35 invoices sampled, service records were attached to only four invoices. The vendor was contacted and was able to provide service records for 28 of the remaining 31 invoices. Timesheet records were accepted as proof of service for the other 3 invoices. The services listed differed from the services billed in two instances. Additionally, one service record was used as support for multiple services to the West Mesa Aquatic Center.

Overbillings occurred because the vendor billed the City incorrectly and the City departments submitted payment without requiring sufficient proof of service that could have successfully identified and prevented the errors. Additionally, department payment authorization had not been documented on 19 out of 23 invoices randomly sampled.

As stated in the general specifications for Pest Control, Section 10, Billing:

- Each location is to be billed separately, unless otherwise specified by department and/or facility,
- Each bill will be accompanied by a pest control service report,
- There must be proof of service for payments to be made, and
- The appropriate charge at each location is to include all services required and any return call as required.

According to Administrative Instruction 3-4: Vendor Performance Evaluation, “It is the responsibility of the receiving department to inspect work being performed on behalf of the City of Albuquerque to ensure that it is being completed in accordance with contractual commitments.” Additionally, as stated in Administrative Instruction 3-7: Payments to Vendors Doing Business Within the City, “...emphasis should be on the proper approval of the purchase prior to receipt of goods or services and evidence of receipt of the goods or services.”

The failure by the user departments to require sufficient proof of service and verify billing accuracy has resulted in overpayments to B&Y.

RECOMMENDATIONS:

The CAO should:

- Instruct DFAS to issue an invoice to B&Y for the \$13,692 overpayment on invoices during the audit period.
- Emphasize to all user departments during the Purchasing Liaison User Group meetings the importance of verifying the accuracy of vendor

invoices and not submitting payment until sufficient proof of service is received and department payment authorization is documented. Proof of service should include at minimum:

- Date of service,
- Printed name and signature of employee accepting the service, and
- Printed name and signature of vendor representative performing the service.

RESPONSE FROM CAO:

“CAO will issue a memo to all Departments emphasizing the importance of reviewing invoices for accuracy and obtaining proof of service prior to approving payment. Additionally, departments will be instructed on the importance of attendance at the DFAS Purchasing Liaison User Group (PLUG) meetings and the need to properly receipt services and merchandise in the system in order to accurately verify and pay vendor invoices. Lastly, the DFAS Purchasing and Accounting Divisions will provide training to its Fiscal Officers and Fiscal Managers on the importance of general accounting principles related to the proper receiving procedures of goods and services so that invoices can be properly paid.

“The ERP Purchasing remediation will address the manner in which invoices will be paid by the City by requiring an electronic three-way match. The three-way match refers to the three documents in the purchasing process which include the purchase order, the receipt of goods and the invoice. If a three way match does not occur, exceptions will be researched. This will reduce the possibility of approving and paying incorrect or fraudulent invoices. DFAS Accounting will request credits to be issued for the overpayments in the amount of \$13,692, the overage identified in this report.”

ESTIMATED COMPLETION DATE:

“February 29, 2016.”

2. DFAS SHOULD INVESTIGATE DEPARTMENTS' VENDOR COMPLAINTS TIMELY AND NOTIFY THE OFFICE OF INSPECTOR GENERAL OF POTENTIAL VENDOR FRAUD.

DFAS-Purchasing does not investigate departments' vendor complaints timely or notify the Office of Inspector General of potential vendor fraud. Department complaints about B&Y, which were referred to DFAS include the following:

- Ineffective services;
- Inaccurate billings;
 - Overcharges,
 - Charges for services to a non-City facility,
 - Charges for unperformed services, and
 - No proof of service.
- Fraudulent documents; and
- Improper/illegible/possibly forged signatures.

One department complaint involved a signature sheet, submitted by B&Y as proof of service that included the signature of a City employee who had terminated employment months prior. According to the Chief Procurement Officer, DFAS-Purchasing's staffing resources often limit the division's ability to investigate every complaint. Between October 2012 and September 2014, DFAS held three meetings regarding non-compliance with B&Y. In each meeting, B&Y agreed to address and correct the reported non-compliance; however, as documented by subsequent department complaints, the non-compliance continued. Following the complaint involving the terminated employee, DFAS notified the Office of Internal Audit and requested an audit.

Administrative Instruction 3-2 states that the Purchasing Officer, upon notification of a discrepancy or problem with a vendor, will immediately initiate an investigation and, within five working days, will issue a determination regarding what course of action will be taken. Additionally, as required by the Albuquerque Code of Ordinances, Chapter 2, Article 17, "All city officials, employees and contractors shall promptly notify the Inspector General of every instance of...non-compliance with federal and state law, city ordinances and city regulations of which they are aware."

By not investigating department complaints regarding vendors timely, the City may continue to conduct business with a vendor and the departments' complaints or concerns, including poor service, overbillings, erroneous charges, and falsified records would continue and remain unaddressed thereby compounding the problem.

RECOMMENDATIONS:

DFAS should:

- Investigate departments' complaints timely and issue a determination regarding complaints that involve allegations of fraud by a vendor (double billing, services billed but not performed, falsified records) as serious and investigate or follow-up in a timely manner.
- Refer any allegations of fraud, waste, or abuse to the Office of Inspector General, regardless of the staffing levels of DFAS.

RESPONSE FROM DFAS:

“DFAS Purchasing conducted two vendor non-compliance meetings with B&Y Pest Control prior to 2015. Each of the meetings resulted in a resolution. In the summer of 2015, an end-user department again reported vendor non-compliance issues involving invoice discrepancies to the Purchasing Division. Because of the ongoing compliance issues with this vendor and because the Purchase Order Terms and Conditions require vendors to produce records at the request of the Office of Internal Audit, the Chief Procurement Officer requested the assistance of the Office of Internal Audit to assist in reviewing B & Y Pest Controls records. DFAS Purchasing will work to resolve vendor issues in the future on a timelier basis. At this time, we ask that the Office of Internal Audit submit its findings to the Office of the Inspector General.”

ESTIMATED COMPLETION DATE:

“Ongoing.”

3. THE CAO SHOULD REMIND CITY USER DEPARTMENTS TO VERIFY THE EXISTENCE OF A CONTRACT PRIOR TO ACCEPTING SERVICES.

Two months after the B&Y contract expired and was not renewed, a user department contacted the vendor and accepted services for pigeon control. The department did not follow the City's purchasing guidelines and requested services from B&Y. Without formal notification to departments that a vendor contract has been cancelled or not renewed, the user departments may continue to contact the vendor to schedule services and the vendor may continue to provide services.

Prior to accepting services from a vendor, departments are to create a Contract Release

Order (CRO). If a vendor contract has been cancelled or otherwise not renewed, the vendor would be inactive in the City’s system and a CRO could not be created. The absence of the contract serves as notice of a terminated contract.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) (Components of Internal Control) Information and Communication: Principal 14 states that, in order for internal controls to function, an organization should communicate required information internally to all personnel.

RECOMMENDATION:

The CAO should emphasize to all user departments during the Purchasing Liaison User Group meetings the importance of generating a CRO and verifying the existence of a contract prior to accepting service from a vendor.

RESPONSE FROM CAO:

“The CAO agrees. It is the responsibility of end-user departments to ensure that, prior to obtaining goods and services from a vendor, that a contract does in fact exist. See Administrative Instruction No. 3-7 Payments to Vendors Doing Business Within the City, Rev. February 17, 1995 (Department responsibility: ‘Ensure that goods or services are not acquired before a purchase order or contract is finalized, or in exceptional cases appropriate procurement procedures are followed.’). To obtain goods or services without an existing contract is a violation of Purchasing Rules. See Administrative Instruction No. 3-10, Purchase Ratification, Rev. February 27, 1995 (Any purchase made that is not in accordance with Purchasing Division rules may result in the need for the issuance of a purchase ratification form.). CAO will issue a memo reminding Departments to verify the existence of a contract prior to accepting services.”

ESTIMATED COMPLETION DATE:

“Ongoing. Memo to be issued by February 29, 2016.”

4. DFAS SHOULD CLARIFY AND COMMUNICATE TO THE USER DEPARTMENTS WHEN A PURCHASE ORDER ADJUSTMENT IS REQUIRED.

Guidance from DFAS-Purchasing is unclear regarding when Purchase Order Adjustments are needed. Conflicting information from DFAS-Purchasing and user departments was received during the audit.

Out of nine invoices requiring quotes, two departments were unable to provide quote information for four invoices containing charges for services that were not included in the contract. Purchase Order Adjustments could not be located for the additional services. According to DFAS-Purchasing, a Purchase Order Adjustment is necessary “when there is any type of change to the contract, including extension of time on the contract, changes in pricing, addition of a location, etc.”

Without clear guidance, City departments have authorized vendor services without properly amending the contract with a Purchase Order Adjustment.

RECOMMENDATION:

DFAS-Purchasing should clarify and communicate to the City’s user departments when a Purchase Order Adjustment is required to obtain services.

RESPONSE FROM DFAS:

“DFAS Purchasing will present the Purchase Order Adjustment process once again to end user Departments at its PLUG meetings. A link to the DFAS Purchasing SharePoint site which contains a PowerPoint entitled, ‘Purchase Order Adjustments’ will be highlighted on the City of Albuquerque’s Employee News site for all employees to view. A copy of the PowerPoint is attached.”

ESTIMATED COMPLETION DATE:

“February 29, 2016.”

CONCLUSION

Although the City no longer has a contract with B&Y, the lessons learned will benefit the City with future contract compliance. City departments also need to be educated about contractual compliance by vendors and ensuring that only appropriate charges are authorized and paid by the City. In addition, allegations by user departments involving potential vendor fraud should be researched immediately, and referred to the City's Office of Inspector General.

We greatly appreciate the assistance of the Department of Finance and Administrative Services – Purchasing Division as well as the involvement and cooperation of B&Y Pest Control, Inc. during the audit.

Contract Auditor

REVIEWED:

Internal Audit Manager

APPROVED:

Debra Yoshimura, CPA, CIA, CGAP
Director, Office of Internal Audit

APPROVED FOR PUBLICATION:

Chairperson, Accountability in
Government Oversight Committee

APPENDIX A

OBJECTIVES

The objectives of the audit were:

- To determine whether B&Y Pest Control, Inc. was in compliance with the contract.
- To determine whether B&Y Pest Control, Inc. was compliant with pest control regulations.

SCOPE

Our audit did not include an examination of all functions and activities related to the B&Y Pest Control, Inc. contract. Our scope was limited to the objectives above.

This report and its conclusions are based on information taken from a sample of transactions and do not represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork on April 3, 2015 and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Methodologies used to accomplish the audit objectives include but are not limited to the following.

- Gather and review background information, documentation of the internal controls in place, and policies and procedures;
- Review applicable pesticide laws, rules and regulations, City ordinances, and City Administrative Instructions;
- Test a sample of invoices for compliance with the contract, rules and regulations, and policies and procedures;
- Verify pesticides used have been registered with the NMDA;

- Ensure all employees applying pesticides are properly certified;
- Confirm that B&Y was inspected in 2013 by the NMDA;
- Ensure pesticide applications records were maintained for the sample of invoices tested;
and
- Other methodologies as needed.