Thomas J. Dagley
Inspector General

OFFICE OF INSPECTOR GENERAL
MEMORANDUM

October 10, 2008

TO: Michael J. Knapp, President, County Council
Timothy L. Firestine, Chief Administrative Officer

FROM: Thomas J. Dagley
Inspector General

SUBJECT: Review of DPWT's Management of Contract to "Prep" New Public Safety and Other Vehicles

As a follow-up to my May 7, 2008 memorandum to you regarding the above-described review involving Contract #0507000009-AA, Automotive Vehicle Maintenance Services, we reviewed ten invoices totaling $1,441,637 submitted to and approved for payment by Fleet Management Services Division (FMS) for the period September 13, 2007 through January 14, 2008. The results of our review were reported to David Dise, Director, Department of General Services, on August 6, 2008. A copy of our report (without exhibits) is attached.

In a September 9 response, copy attached, the Director addressed concerns we reported regarding: performance standard fees or penalties; compliance with current contract terms; and incorporation of current FMS practices into contract terms. Several corrective actions identified by Mr. Dise require additional time. No further action by the Office of Inspector General is anticipated at this time.

We appreciate the attention provided to this matter by Mr. Dise and his staff. If you have any questions or would like additional information, please do not hesitate to call.

Re: #08-34

Attachments (2)

cc: Council Members
Kathleen Boucher, ACAO
David Dise, Director, DGS

51 Monroe Street, Suite 802 • Rockville, Maryland 20850
240/777-8240, FAX 240/777/8254, E-mail: IG@montgomerycountymd.gov

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

Thomas J. Dagley
Inspector General

August 6, 2008

TO: David E. Dise, Director
Department of General Services

FROM: Thomas J. Dagley
Inspector General

SUBJECT: Review of County's Management of Contract to "Prep" New Public Safety and Other Vehicles

The Office of Inspector General (OIG) conducted a review of certain aspects of Contract #0507000009-AA, Automotive Vehicle Maintenance Services, used by the Fleet Management Services Division (FMS), Department of General Services (DGS) for new County vehicle inspections, cleaning, installation of decals, license tags, and the installation of special equipment for public safety vehicles.

The decision to conduct the review was based, in part, on our validation of an anonymous tip in early 2008 alleging a significant backlog of new public safety and other County vehicles needing preparation prior to being placed into service. We found that the number had grown from about 40 in October 2007 to more than 130 with a total purchase value of about $2.7 million in February 2008. The results of our initial review were reported to the Director, Department of Public Works and Transportation (DPWT) on March 28, 2008, with a copy provided to you.

In light of the July 1, 2008, transition of FMS from DPWT to DGS, this memorandum is being transmitted to you. I am providing you with a report dated August 5, 2008, by Charles H. Becker, Assistant Inspector General, in order that a determination as to what, if any, action may be appropriate to address the issues summarized in the comments section of Table A and discussed in detail in the attached report. Please advise me, in writing, of your decision by September 5, 2008. Your response will help us determine whether additional work will be conducted related to DGS contracts. Thank you for your attention to this matter. If any additional information or assistance is needed please do not hesitate to call me at 240-777-8240.

Attachment

cc: Kathleen Boucher, ACAO

OFFICE OF INSPECTOR GENERAL

Thomas J. Dagley
Inspector General

MEMORANDUM

August 5, 2008

TO: Thomas J. Dagley
Inspector General

FROM: Charles H. Becker
Assistant Inspector General

SUBJECT: Review of County's Management of Contract to "Prep" New Public Safety and Other Vehicles

I am providing you with the results of my review of certain aspects of Contract #0507000009-AA, Automotive Vehicle Maintenance Services, used by the Fleet Management Services Division (FMS), Department of General Services (DGS), for new County vehicle inspections, cleaning, installation of decals, license tags, and the installation of special equipment for public safety vehicles. The contract between the County and First Vehicle Services (FVS) was initiated in January 2001 and the most recent one-year extension carries the contract through the end of calendar year 2008. FMS transitioned from the Department of Public Works and Transportation (DPWT) to DGS, effective July 1, 2008.

Basis for Review

The review was based, in part, on our validation of an anonymous tip in early 2008 alleging a significant backlog of new public safety and other County vehicles needing preparation prior to being placed into service. We found that the number had grown from about 40 in October 2007 to more than 130 with a total purchase value of about $2.7 million in February 2008.

OIG Analysis

Our review evaluated management controls and compliance with certain provisions of the automotive vehicle maintenance services contract for the period leading up to and including the backlog of new vehicles. We selected and reviewed ten invoices totaling $1,441,637 submitted to and approved for payment by DPWT for the period September 13, 2007 through January 14, 2008. Our review included three categories of fees charged by FVS, the County's contractor, under the vehicle maintenance services contract. We reviewed transactions involving monthly target (fixed) service fees, performance standard/incentive fees, and non-target (variable) service fees. Table A provides a summary of the ten FVS invoices included in our review.

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Table A
Summary of Paid First Vehicle Services (FVS) Invoices Tested
For the Period September 13, 2007 through January 14, 2008

Target Service Fees			
Date	Invoice Amount	Invoice #	Comments
9/13/07	$308,695.82	610640	Fixed monthly fee based on amendments to the contract. Our review disclosed no reportable exceptions.
10/31/07	308,695.82	610645	
11/27/07	308,695.82	610648	
12/20/07	308,695.82	610651	
Performance Standard/Incentive Fees			
Date	Invoice Amount	Invoice #	Comments
11/26/07	$5,809.28	610647	Review resulted in OIG observations related to: consistency in assessing performance standard penalties (Item #1); clarity of rationale regarding $67,976 contract amendment (Item #2); and contract terms regarding County's methodology to calculate management fee (Item #3).
12/12/07	3,574.94	610650	
1/14/08	5,809.28	610653	
Non-Target Service Fees			
Date	Invoice Amount	Invoice #	Comments
11/01/07	$98,241.01	610646	Review disclosed issues regarding: verbal bidding practices that differ from contract provisions (Item #1); the need to consider incorporating those practices in contract terms (Item #2); and timing of the approval of supplemental work that does not comply with contract terms (Item #3).
11/01/07	44,760.55	610649	
1/02/08	48,659.25	610652	

Target Service Fees

The contract provides for a fixed annual target service fee that is billed by FVS in 12 equal monthly payments. The fixed target service fee for 2007 was $3,704,349.84 for which FVS submitted monthly invoices totaling $308,695.82. Our review of target service fees disclosed no reportable conditions.

Performance Standard/Incentive Fees

The contract provides for various incentive fee adjustments if certain performance standards are or are not met by FVS. A monthly analysis is performed by FVS related to each performance standard. The monthly percentage increase or decrease related to each performance standard is calculated by FVS which results in FVS arriving at the total monthly percentage adjustment for all performance standards. The adjustment percentage is then applied to the monthly base management fee and the result is billed to DGS as the incentive fee for the month. FMS staff reviews the supporting documentation submitted by FVS to ensure the accuracy of the incentive fee adjustment reflected on the monthly invoice. The incentive fee adjustments included in our review (see Table A) were arrive at by FVS applying percentage adjustments of 26 percent (11/26/07), 16 percent (12/12/07), and 26 percent (1/14/08) to the $22,343.40 monthly management fee.

The rationale behind several issues related to the FMS handling of performance standard fees or penalties are not clear as evidenced by the following:

1) One incentive fee component of the contract relates to new vehicle receiving and preparation and provides for a monthly five percent fee addition or reduction based on performance standards set forth in the contract. Subsequent to the start of our initial review of the vehicle backlog, FMS assessed a five percent penalty ($1,242.53/month) to FVS' March and April 2008 incentive fees for failure to meet new vehicle prep performance standards. Our initial review revealed that the vehicle prepping backlog began in October 2007 and continued through February 2008. However, FMS has not assessed performance standards penalties related to that time frame. Using the rationale applied to penalize FVS for failure to meet vehicle prep standards in March and April 2008, we recommend FMS management analyze new vehicle prep activity for the period October 2007 through February 2008 to determine whether penalties should also be assessed for that period.

2) The results of our initial review were reported to the Director, DPWT on March 28, 2008. In the Director's responses, dated April 30 and May 7, 2008 (copies attached), he confirmed the backlog we reported. He also advised that at a Contract Review Committee hearing on April 17, 2008 the contract was amended to increase funding (by $67,976) to allow the contractor to increase its complement of technicians by two positions to expedite the execution of new vehicle receiving, vehicle preparation, and vehicle disposal. Our review revealed that the cost of the additional technicians was added to the targeted cost fee for 2008. We request that DGS management clarify the rationale as to why the contractor was penalized $2,485 in March and April 2008 for failing to comply with the performance standard provisions of the original contract while receiving $67,976 in additional contract fees to address the backlog.

3) The contract does not provide either a dollar amount or a method of calculating the monthly management fee to which the percentage performance incentive adjustment is applied. According to the Equipment Services Coordinator (ESC), FMS, the monthly management fee is calculated by multiplying the monthly Target Service Fee (discussed on page 2) by 7.238 percent. According to the ESC, the contract does not provide for the 7.238 percent and he has no documentation to support how this percentage was determined. He stated this percentage has always been the same and he believes the 7.238 percent was determined by dividing the monthly management fee by the monthly target fee contained in the original contract (2001). We recommend management consider incorporating into the current and future contracts a stated percentage or the methodology to be used in calculating the management fee.

Non-Target Service Fees

The contract provides for FVS to perform non-target services on a time and material basis. Non-target services are billed on a job-by-job basis and include vehicle repairs needed as a result of vandalism, accident damage, and other work directed by the County. For the period of our review FMS submitted three invoices totaling $191,660 for non-target service fees (see Table A). Our review included an analysis of supporting documentation related to 15 non-target services totaling $38,212 performed by FVS. Our review disclosed issues that DGS management should consider addressing in order to ensure compliance with current contract terms and to provide for current FMS practices to be incorporated into contract terms:

1) The FMS ESC informed OIG that for body work FVS requests as many as three estimates, but recommends a body shop based on as few as two estimates. In addition, Property Damage Appraisers works in conjunction with the County's Division of Risk Management to provide an independent estimate for body work that FMS uses to gauge the accuracy of the estimates obtained by FVS. The contract only requires "a detailed estimate" that is approved by the Contract Administrator prior to beginning work, with FMS having the option to seek other estimates. There is no written requirement for multiple estimates or for FVS to recommend a body shop based on criteria such as lowest bid or best value. Since FMS has established an unwritten practice that differs from the contract terms, management should consider clarifying estimate requirements in the current and future vehicle maintenance services contracts.

2) Our review of 15 FMS files disclosed five instances where the company that performed the body work was not the lowest bidder. Assuming a decision is made to incorporate in the current and future contracts a requirement to obtain multiple estimates, consideration should be given to require written documentation in the FMS file to substantiate the approval of the body shop selected, particularly when that body shop is not the lowest bidder.

3) Our review revealed three instances where a total of $3,076 in additional work was required subsequent to FMS' approval of the original estimate and the additional work was performed and invoiced to FVS prior to FMS approval. Since the contract requires approval of estimates prior to beginning work, FMS should ensure that additional work is approved in accordance with the terms of the contract.

Re: #08-34

Attachments (2)

DEPARTMENT OF GENERAL SERVICES

Isiah Leggett
County Executive

David E. Dise
Director

MEMORANDUM

September 9, 2008

RECEIVED
SEP 10 2008
BY: DA

TO: Thomas J. Dagley
Inspector General

FROM: David Dise, Director DD
Department of General Services

SUBJECT: Review of County's Management of Contract to "Prep" New Public Safety and Other Vehicles

This is in response to your memorandum dated August 6, 2008, regarding the review of certain aspects of Contract #0507000009-AA, Automotive Vehicle Maintenance Services, used by the Division of Fleet Management (DFMS), Department of General Services (DGS).

We have reviewed the report prepared by Mr. Becker on management controls and compliance with certain provisions of the automotive vehicle maintenance services contract and have the following response. We will address each of the three categories in your report individually.

Target Service Fees

We agree that this is a fixed monthly fee whose calculation is easily understood.

Performance Standard/Incentive Fees

We agree that the provisions in the contract for fees or penalties are confusing and need to be rewritten. DFMS is preparing the new Request for Proposal (RFP) for the maintenance of the automotive/light fleet that will result in a performance-based contract allowing for increases or decreases in payment based on clearly defined performance criteria. The individual issues stated in your report are addressed below.

1. The situation pertaining to whether the contractor is assessed a penalty or not under the current contract is complicated. In order for the contractor to begin the preparation process, the equipment to be installed on the vehicle must be available to the contractor. DFMS did not have the responsibility for ordering and stocking most of this equipment, and those agencies having that responsibility did not have the equipment available, most often because of manufacturer backorders. This

Office of the Director

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contributed to the delay in prepping the delivered vehicles. It would be unfair to assess our contractor a penalty when Montgomery County failed to have the equipment available. However, in instances where materials were available, DFMS did assess a penalty, such as last March and April when the contractor failed to prep three public safety vehicles daily despite all required materials being on hand. Effective in October 2008, DFMS will assume responsibility for ordering and stocking the equipment installed in the public safety vehicles. As part of this, DFMS will conduct a thorough analysis of the processes previously employed.

2. As explained in response #1, the penalties assessed to the County contractor were due to its failure to prep three public safety vehicles per day in accordance with the contract terms. The contractor had the option of delaying nontargeted service in order to meet the terms of the contract with regard to the prepping of vehicles. The nontarget work was at the request of a public safety department but should have been delayed in order to prep the vehicles in a timely manner. Clearly, all services provided through the contract should be delivered in the most timely and efficient manner possible without any aspect of the contract being delayed. This could not be achieved without addressing the automotive mechanic technicians complement since the time required to install/modify equipment has increased substantially since contract inception.

3. We agree that the management fee calculation is confusing. We are simplifying the calculation under the new RFP for automotive/light equipment maintenance.

Nontarget Service Fees

1. We agree that DFMS should clarify estimated requirements in future contracts. To this end, we have incorporated language clearly explaining the basis for performance requirements in the new RFP. During the solicitation process, prospective offerors will have opportunity to comment or challenge these estimates and the assumptions upon which they are based.

2. We agree that written documentation needs to be maintained that clearly states why the County chose a particular body shop. This will become a routine record maintained by DFMS.

3. We agree that written approval prior to work commencement should be obtained. Please note that in some cases this approval would be verbal approval with a note to file as to the date and work approved. Supplemental work is often unknown until a vehicle is "torn down" and verbal approval prevents delay in getting the work completed and the vehicle back in service. Nevertheless, the file must contain a record of all authorizations made.

If you have any additional questions or concerns with regard to the information provided, please feel free to call me.

Copy: T. Firestine, CAO