



COMMISSIONERS COURT  
COMMUNICATION

REFERENCE NUMBER CO#130561

PAGE 1 OF 5

DATE: 07/09/2019

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE REVIEW OF THE  
4TH FLOOR ADMINISTRATION BUILDING RENOVATION PROJECT**

**COMMISSIONERS COURT ACTION REQUESTED:**

It is requested that the Commissioners Court receive and file the Auditor's Report of the Review of the 4th Floor Administration Building Renovation Project.

**BACKGROUND:**

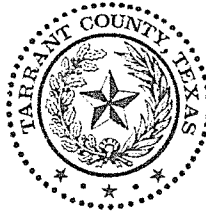
The Auditor's Office performed a review of expenditures related to the 4th floor renovation of the Administration Building as of February 2019.

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell  
APPROVED BY:



## TARRANT COUNTY

TARRANT COUNTY ADMINISTRATION BUILDING - ROOM 506  
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CRAIG MAXWELL  
FIRST ASSISTANT COUNTY AUDITOR  
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June 25, 2019

Mr. David Phillips, Director - Facilities Management  
Mr. Jack Beacham, Purchasing Agent  
The Honorable Commissioners Court  
The Honorable District Judges  
Tarrant County, Texas

Re: Auditor's Report – 4<sup>th</sup> Floor Administration Building Renovation

The Auditor's Office performed a review of expenditures related to the 4<sup>th</sup> floor renovation of the Administration Building as of February 2019. Initially, the Commissioners Court approved two separate budgets – one for the renovation of the bathrooms and the second for the renovation of the conference room area. Each project was estimated to be approximately \$200,000. Bids for the restroom remodel came in at approximately \$800,000. Therefore, the bids were rejected, the two projects were combined into one project, and certain trades were rebid. The total FY2019 budget is approximately \$415,000.

In an effort to save money, Tarrant County Facilities Management (Facilities) served as the general contractor over the project. Expenses for the project were recorded in SAP. Since a couple of the project vendors were approaching total costs nearing \$50,000, the Purchasing Agent requested that the project be placed on hold so that the remaining work could be competitively bid to ensure compliance with Section 262.023 of the Local Government Code. Local Government Code 262.023 requires formal competitive bidding for goods and services in excess of \$50,000.

During our review, we observed the following:

1. *We could not determine whether the Purchasing Department Buyer always obtained informal quotes as required by policy.* For goods or services less than \$50,000, Tarrant County Purchasing Policies and Procedures require that the Purchasing Agent (or his designee) solicit quotes. As of February 2019, the County paid approximately \$115,300 related to informal quotes for the 4<sup>th</sup> floor renovation. Purchasing Department procedures require that informal quotes be documented and retained in the files. Since the Buyer responsible for the 4<sup>th</sup> floor renovation terminated County employment on June 9, 2018, Purchasing Department staff have not been able to locate documentation supporting all informal quotes obtained by the Buyer.

Recommendation: The Purchasing Agent should establish management oversight procedures to ensure that departmental policies are followed by Purchasing Department staff, including the filing of documentation supporting any informal quotes obtained by the Buyers.

2. *The appearance of a conflict of interest existed between the Facilities Project Manager and the Purchasing Department Buyer.* We learned that the Facilities Project Manager over the 4<sup>th</sup> floor renovation project is married to the Purchasing Department Buyer who was responsible for formal and informal solicitations and the subsequent approval of purchase orders for vendors working on the project. This relationship posed an increased risk since Purchasing staff has not been able to locate documentation supporting all informal quotes since the Buyer terminated County employment. The Director of Facilities stated that he was aware of the relationship upon hiring the Project Manager in March 2017. The Purchasing Agent was not initially aware of the relationship.

Facilities and the Purchasing Department have adequate segregation of duties for the *systematic process* of the creation and release of requisitions and entering a goods receipt or service entry sheet for payment. We observed no instances where the Project Manager created or released a requisition or entered a goods receipt or service entry sheet. However, we could not determine whether segregation of duties existed since Purchasing Department staff could not locate all documentation supporting the solicitation of informal quotes. The relationship between the Buyer and the Project Manager *could* allow or give the perception of a conflict of interest.

Currently, the County has a nepotism policy within the Civil Service Rules that prohibits a County employee from hiring or supervising an immediate family member. The County has a Disclosure of Interest provision within the Civil Service rules. However, this provision only prohibits an employee from being a part of the decision making process with a business where the employee has a substantial *financial* interest. A substantial financial interest is specifically defined as an ownership of 10 percent or more of the business. The County does not have a policy that requires disclosure of relationships that could pose a conflict of interest while performing County duties.

Recommendation: The Commissioners Court should consider implementing a policy that requires County employees to disclose relationships that may cause a conflict of interest, whether in appearance or in fact, while performing duties. The policy should include a standardized Conflict of Interest certification form, and at least annually, County employees should disclose any relationships that could pose a conflict of interest. Disclosure of relationships that could cause a conflict of interest is particularly important in the Purchasing Department, Human Resources, and the Auditor's Office. These relationships include:

- a. The employee's spouse or domestic partner, parent, child, sibling, grandparent, grandchild, in-laws, or any other family member with the second degree of consanguinity (ancestral relationship) or affinity (relationship by marriage);
- b. A member of the employee's household;
- c. Any individual with whom the employee would reasonably be considered to have an especially close relationship (e.g., fiancé, girlfriend, boyfriend);
- d. An individual with whom the employee regularly socializes with outside of work activities;
- e. The employee's business partner; and
- f. An organization which the employee serves as an officer, director, trustee, general partner or employee.

If a relationship changes during the year, the employee should immediately update their certification form and provide to their respective department head. Department heads should remit the completed certifications to Human Resources to be recorded in an electronic database. At a minimum, this database should be available to the County Auditor and the Purchasing Agent upon request so that areas of exposure can be identified and addressed.

3. *SAP internal orders were not used for tracking expenditures.* Instead, Facilities staff tracked the project costs using an Excel spreadsheet. According to Facilities staff, expenditures to date total approximately \$300,000.


Recommendation: To ensure compliance with County policy and relevant purchasing statutes, we recommend that Facilities use the SAP internal order system to track costs for *all* projects over \$25,000. However, the Director of Facilities stated that they will not act as the general contractor for projects over \$25,000 in the future. Instead, an architect will be engaged and documentation will be provided to the Purchasing Department to initiate the competitive bid process. Any exceptions will be agreed upon by the Purchasing Agent and the Director of Facilities.

4. *Segregation of duties were not adequate.* We observed a practice whereby the same Facilities employee entered purchase requisitions, then a manager and the Auditor's Office approved the requisitions. However, the Facilities employee who entered the purchase requisitions oftentimes received the goods and entered the goods receipt into SAP. This same employee also verified the existence of assets during the County's annual asset inventory. Therefore, a risk of theft or loss exists and may not be detected.

Recommendation: The Director of Facilities should ensure that incompatible duties are segregated. The same individual should not requisition goods, enter the goods receipt, and then validate the existence of the goods during the year-end inventory.

Upon discussing the observations, the Director of Facilities and the Purchasing Agent agreed with our recommendations.

Sincerely,

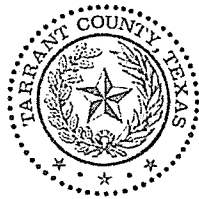


S. Renee Tidwell, CPA  
County Auditor

*Attachment:* Management responses

*Distribution:* G.K. Maenius, County Administrator  
Tina Glenn, Director, Human Resources

*Audit Team:* Kim Trussell, Audit Manager  
Kara Hoekstra, Senior Internal Auditor



**TARRANT COUNTY**  
DEPARTMENT OF FACILITIES MANAGEMENT

DAVID PHILLIPS  
DIRECTOR

June 28, 2019

To: Renee Tidwell [REDACTED]

From: David Phillips [REDACTED]

RE: Auditor's Report on 4<sup>th</sup> Floor Administration Building Project

Renee,

When we hired the project manager, we made the decision not to add his name to the Facilities Management Payment Signature List. The signature list is sent to the Auditor's Office to advise your staff of who can approve payments of any type. In addition to not being able to approve payments, he is not able to approve contractor change orders. He does make recommendations regarding changes, but Tracy Pelle reviews and approves all changes to projects and all directives to contractors. Normally we would allow this project manager position to be on the signature list and approve minor changes in the field, but given the fact his wife worked for Purchasing and given the fact we thought he was the best person for the job, we tweaked our processes to hire him and address any contractor payment/change order process issues. Now that his wife no longer works for the county, we will add his name to the signature list and send your staff the updated list.

Regarding tracking expenditures, we have used the SAP internal order tracking process on large projects for 8 to 10 years. For each 2006 CIP project and each new building project we used the internal order process. Your staff helped us setup this I/O system to marry up SAP data with our Excel spreadsheet construction project capital budget categories (i.e. construction contracts, professional services, furniture, ITD costs, etc.). It works well. We have not used it on smaller projects. We will start doing so.

To address the segregation of duties for requisitions/goods receipts/asset verification, we will have a different person verify the asset inventory lists as Kim Trussell suggested to me last week.

Renee, I have enjoyed working with you and your staff for many years. The internal audit group (Kim Trussell and team) have been by-the-book and stern, but fair and reasonable when it comes to audits of my department over the years. They do a great job humanizing an audit process that is not all that much fun for us sometimes. They are certainly welcome over here at our shop anytime. As are you.

dp



**TARRANT COUNTY**  
PURCHASING DEPARTMENT

JACK BEACHAM, C.P.M., A.P.P.  
PURCHASING AGENT

MELISSA LEE, C.P.M., A.P.P.  
ASSISTANT

**Memorandum**

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DATE: July 1, 2019  
TO: S. Renee Tidwell, CPA  
County Auditor  
SUBJECT: Audit Report - 4th Floor Renovation Project

Dear Ms. Tidwell,

County Purchasing Policies and Procedures are in place and have been for years. As soon as we spotted a potential problem in the process, we reported the situation to Facilities and Auditors Offices, and immediately made commodity adjustments.

Respectfully,



Jack Beacham, C.P.M., A.P.P.  
Purchasing Agent