



OFFICE OF THE COUNTY AUDITOR DUPAGE COUNTY, ILLINOIS

James W. Rasins, C.P.A., C.F.E.
County Auditor

Peter W. Balgemann, C.G.A.P.
Chief Deputy Auditor

421 N. County Farm Road
Wheaton, Illinois 60187
(630) 682-7190
FAX: (630) 682-7442
www.dupageco.org/auditor

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HON. ROBERT J. SCHILLERSTROM, Chairman
and Members of the County Board
DuPage County
Wheaton, Illinois

Ladies and Gentlemen:

As part of its continuous internal audit responsibility, the Office of the County Auditor has completed various audit procedures related to a contract between DuPage County and Canteen Correctional Services (Vendor). The contract covered food services provided by the Vendor to the DuPage County Juvenile Detention Center.

The objectives of the audit were to:

- Determine that the amounts billed to the County by the Vendor were in accordance with the terms and conditions of the contract;
- Determine that the nature of the amounts paid by the County to the Vendor under the contract were in compliance with the terms of the contract; and,
- Determine that the terms and conditions of the contract appropriately defined the relationship between the County and the Vendor.

At the time that the audit procedures were performed, the original contract period had expired, and services were being provided by the Vendor under the terms of the first annual renewal of the contract. Audit procedures were directed to amounts billed to, and paid by, the County during the 20-month period from January 6, 2003, through August 31, 2004. The audit was performed in accordance with generally accepted government auditing standards, and included such procedures deemed necessary to meet the audit objectives.

SUMMARY OF SIGNIFICANT AUDIT RESULTS

The audit procedures resulted in the:

- Identification of erroneous billing rates used by the Vendor during the audit period, that led to a contract overcharge of \$23,356, representing 9.4% of the amounts billed to the County;
- Determination that the number of meals billed by the Vendor was supported by records maintained by the Juvenile Detention Center;
- Determination that the nature of the work performed by the vendor was consistent with the scope and intent of the contract;
- Determination that the price adjustment factor used during the first annual contract renewal was overstated;
- Identification of various contract terms and conditions that complicated the evaluation of Vendor compliance with the billing requirements; and,
- Identification of weaknesses related to the contract administration process in place in the Department of Probation and Court Services that allowed the payment of the erroneous billings by the County.

BACKGROUND

The DuPage County Juvenile Detention Center (Center) is a 24-hour, 7-day per week facility providing secure, temporary detention of juveniles (detainees) pending the court disposition of their individual cases. The Center provides an academic schedule, art and recreation programs, and therapy programs for the detainees. During the 20-month period covered by this audit, the daily population of the Center ranged from 24 to 54 juveniles. It should be noted that the Center population fluctuates each day based upon intake, releases, furloughs, off-site treatment, etc.

During September, 2002, a Request for Proposal (RFP) was issued by the DuPage County Purchasing Division for food services to be provided at the Center. These services included meals, snacks, and sandwiches. The RFP provided that:

- The price per meal would be on a “sliding scale” based upon the actual number of meals served to the Center detainees (including double meals) and Center staff;
- The price for snacks could vary based upon the actual number of snacks served;
- The price for specified sandwiches would be based upon a fixed amount per sandwich served;

- The initial contract would cover a one year period, with the option of three one-year renewals to be exercised on an annual basis with the mutual consent of the County and the selected service provider; and,
- Adjustments to the rates billed to the County would be allowed in each of the three annual contract renewal periods, based upon changes in the Consumer Price Index.

The proposal submitted by the Vendor represented the lowest cost submitted by the three firms that responded to the RFP. The proposed total annual food service cost submitted by the Vendor for the first year of the contract was 23% less than the corresponding cost submitted by the next lowest respondent. The Vendor proposal for the original contract period included a pricing schedule that referenced various rates per meal that decreased, in steps, as the number of meals served increased.

Based upon the proposal received, the County Board approved a one-year contract with the Vendor during December, 2002, with the contract period beginning on January 6, 2003. The contract terms and conditions included the contents of the RFP and the Vendor proposal. Pursuant to the renewal option in the contract, the County Board approved a one-year renewal of the contract in December, 2003, with the renewal period beginning on January 1, 2004. As of August 31, 2004, the County had paid the Vendor \$224,672 for services provided under the original contract and the renewal.

DETAILED AUDIT RESULTS AND AUDIT PROCEDURES

Vendor Billings - Billing Rates

Audit procedures were performed to verify that the rates used by the Vendor to bill the County for services provided, agreed with the rates appearing in the contract with the Vendor. The results of the audit procedures performed using an initial sample of Vendor invoices paid by the County, indicated an unacceptable error rate related to the billing rates used by the Vendor. Therefore, the scope of the billing rate audit procedures was expanded to include all of the invoices paid by the County during the 20-month audit period, as well as invoices that had been submitted by the Vendor for payment during the audit period for which payment had not yet been processed by the County.

There were no exceptions identified regarding the rates used to bill the County for snacks and sandwiches. However, it was noted that on each invoice examined, the Vendor consistently used an erroneous rate per meal to bill the County. The use of these erroneous rates resulted in total actual overcharges of \$21,094 on the paid invoices. The audit procedures identified additional overcharges of \$2,262 on the Vendor invoices that were submitted but not yet paid. The total amount of the overcharges on all of the Vendor invoices examined was \$23,356, representing 9.4% of the total amount invoiced.

An analysis of the invoices determined that the Vendor used a rate per meal that was based upon the number of single meals served to *Center detainees only*, even though the total number of meals actually served included double meals for certain detainees and meals for Center staff. As indicated previously, the proposal submitted by the Vendor provided for a reduced rate per meal as the number of actual meals served (detainees, doubles, and staff) increased. The method used by the Vendor to bill the County resulted in the use of a higher rate per meal (detainee-only single meal count) as the basis for billing the actual total meals served (detainee, doubles, and staff meal count). This method resulted in the overcharges cited above.

Vendor Billings - Number of Meals Provided

Detailed audit procedures were performed to verify that the total number of meals billed by the Vendor reflected the number of Center detainees and staff members present to receive meals. For each invoice included in the audit sample, the daily Center population records were compared to the number of detainee meals billed to the County. Also, the number of staff meals billed by the Vendor was compared to the number of staff members eligible to receive daily meals. There were no significant variations between the number of meals billed and the records used to confirm such amounts.

Vendor Billings - Nature of Services Billed

Audit procedures were performed to determine that the nature of the services billed by the Vendor were consistent with the terms and conditions of the contract. An analysis of the sample invoices indicated that the services billed to the County did not materially vary from the nature of services described in the contract.

Vendor Billings - Calculation of Annual Price Adjustment

While unclear as to the frequency of such adjustment (as discussed in a subsequent section of this report), the RFP provided that the rates used by the Vendor to bill the County for services would be adjusted during each renewal period. This adjustment was to be based upon changes in the Department of Labor Consumer Price Index for all urban consumers in the Metro Chicago Area. Any resulting price increase adjustments were limited by the contract to a maximum of 2.5%.

During December, 2003, the County Board approved the first contract renewal with the Vendor, authorizing a 2.3% price increase over the contract rates in effect during the first year of the contract. An examination of the contract renewal documents indicated that neither the Vendor nor any County personnel prepared an updated rate per meal pricing schedule reflecting the price increase. The only pricing information included in the contract renewal documentation was the pricing schedule applicable to the *original contract period*.

In order to determine the veracity of the price adjustment applicable to the contract renewal, Purchasing Division staff members involved in the contract renewal process were contacted during this audit. Purchasing Division staff indicated that the Vendor *verbally* provided the 2.3% adjustment factor that was approved by the County Board. Purchasing

Division staff indicated that, at the time of the contract renewal, two attempts were made to determine the accuracy of the Vendor-provided adjustment factor. Each of these attempts resulted in the calculation of an adjustment factor that was believed to exceed the 2.5% maximum adjustment noted in the RFP. The Division staff rationalized that since the price adjustment provided by the Vendor was less than its calculated adjustment, the Vendor-provided adjustment appeared appropriate.

Audit procedures determined that the Purchasing Division staff used an erroneous technique in the verification of the adjustment factor. The price adjustment factor calculated as part of the audit, using a twelve month period as specified in the RFP, was 1.64%, rather than the 2.3% factor approved by the County Board.

Basis for Price Adjustment

The use of a price escalation mechanism in the contract provides a method of price protection for the Vendor and serves as an incentive for the Vendor to agree to the allowable contract renewals. However, it appears that the use of the changes in the Consumer Price Index as the basis for price adjustments in this contract may not be the best measure of related cost increases incurred by the Vendor. The Consumer Price Index is based on a "market basket" of goods utilized by urban consumers, including costs related to food, transportation, housing, recreation, and apparel. These aggregated costs do not appear to be relevant to the nature of the food services provided under the contract.

It would be more appropriate to use an Index more applicable to the nature of the services provided under the contract. In this situation, the All Urban Consumers Food Away From Home Index would appear to be more appropriate. In fact, this Index was used by the County as the basis for the price escalation terms in the 2003 contract for food services provided in the County Jail.

Need to Clarify Contract Terminology - Pricing

The terms and conditions of the RFP prepared by the County became an integral part of the contract that was awarded to the Vendor. Therefore, it is critical that the RFP clearly define terms, conditions, and performance requirements to which the successful respondent will be held. The audit procedures identified two situations where the wording of the RFP could be improved, resulting in a greater ability to monitor the pricing method used by the Vendor.

First, each respondent to the RFP was required to submit its billing rates (prices) per meal on a pre-printed "Proposal Pricing" form. The form provided for prices to be established based upon an increasing number of meals. The range of the meal quantities was determined by the County and set at five meal increments (e.g., 20 - 24 meals, 25 - 29 meals, 30 - 34 meals, etc.), with the highest increment cited as 55 meals and above. The proposal submitted by the Vendor provided for a decreasing rate per meal for each increment. However, the "Proposal Pricing" form that County personnel prepared failed to indicate the period of time in which the referenced meals were to be served, e.g. each meal sitting, daily,

or weekly. While not specifically stated in the RFP, it was assumed that the number of meals referenced the meals served per sitting.

Second, while the RFP included two references to the establishment of the billing rates (prices) on a sliding scale based upon the Center population, only a footnote on the "Proposal Pricing" form cited the impact of the inclusion of double meals in the determination of the billing rate per meal served. This form was completed and signed by the Vendor acknowledging the contents of the form and RFP. The failure of the terms of the RFP (other than on the "Proposal Pricing" page) to include a reference of the impact of double meals on the billing rate, was cited by a Vendor representative as a factor in determining the rate per meal used by the Vendor to bill the County.

Inconsistent Contract Terminology - Price Adjustment

A previous section of this report cited the results of the audit procedures performed to determine compliance with the RFP terms related to billing rates used by the Vendor during the first renewal period of the contract. These rates were to be based upon the following RFP reference to price adjustments:

"The contract price will remain firm for the original contract period. For each year thereafter, the *monthly rate* (emphasis added) will be adjusted based upon the movement of the unadjusted figures of the Department of Labor Consumer Price Increase (CPI) for all urban consumers in the Metro Chicago Areas for the *twelve month period* (emphasis added) ending in Month (sic) of each contract year, not to exceed 2.5%."

While performing the audit procedures, it was noted that the above reference contained terms that were inconsistent with other sections of the RFP, and that were vague as to the application of the price adjustments, as follows:

- The terms cited above reference the adjustment of a "monthly rate." However, the billings submitted by the Vendor were based upon a rate per meal, rate per snack, and rate per sandwich, not a monthly rate;
- At the conclusion of the original one-year contract period, the County Board adopted the first contract renewal, authorizing an annual price increase of 2.3%. It is not clear whether the RFP terms referenced above require an annual price adjustment covering the entire annual renewal period, or a price adjustment in each month of the annual renewal period; and,
- The RFP is not specific as to which twelve months are included in the Consumer Price Index analysis that is to serve as the basis for the contractual price adjustment. The Index data is not available until two weeks after the end of each month. Therefore, any adjustments made based upon current Index information would be delayed until a later month. Likewise, an annual adjustment applicable to a renewal

could not be based upon Index information as of the contract ending date, as the renewal would need to be processed prior to the end of the contract.

Contract Administration/Management

After the contract was issued to the Vendor, personnel in the Center and the Department of Probation and Court Services (Department) had the responsibility to monitor Vendor performance and contract compliance. The audit determined that the administrative procedures relative to the financial aspects of the contract included the following:

- Center personnel received a weekly, detailed invoice from the Vendor, noting the daily number of meals, snacks, and sandwiches served during the billing period, as well as the rate per meal, snack and sandwich;
- Center personnel verified the propriety of the number of meals noted on the invoice, and forwarded the invoice to Department personnel for payment processing; and,
- Department personnel prepared the appropriate payment form, authorized processing of the payment, attached the weekly Vendor invoice, and forwarded the authorized payment form and invoice to the Finance Department for payment processing.

The audit results identified the following weaknesses in the administrative procedures:

- Neither the Center nor Department personnel determined that the billing rates used by the Vendor agreed with the terms of the contract;
- Neither the Center nor Department personnel requested an updated rate per meal pricing schedule for the first contract renewal period;
- Neither the Center nor Department personnel monitored or were familiar with the application of the price adjustment terms in the RFP; and,
- Neither the Center nor Department personnel questioned the weekly submission of invoices by the Vendor, when the RFP specifically stated such invoices and related payments were to be made on a monthly basis.

Effective contract management procedures and controls are essential in order to effectively monitor contract compliance and Vendor performance. The absence of such procedures relative to this contract contributed directly to the results of this internal audit.

RECOMMENDATIONS

As a result of the internal audit procedures, the following recommendations are made relative to the Center food service contract:

- The County should pursue recovery of the \$21,094 Vendor overcharge amount that was actually paid by the County;
- The County should pay only the contractually agreed upon amounts for the invoices submitted by the Vendor but not yet paid;
- Purchasing Division personnel should review the contract to clarify inconsistencies noted in the RFP;
- The County should request that the Vendor provide the basis for the current and future price adjustment factors in writing and provide updated pricing schedules when applicable; and,
- Center and Department personnel should implement appropriate contract management procedures to monitor contract compliance and Vendor performance. This should include the evaluation of the propriety of the billing rates used by the Vendor on each invoice and monitoring compliance with other financial and performance contract terms.

The results of this audit have been discussed with representatives from the Office of the State's Attorney, Department of Probation and Court Services, Juvenile Detention Center, and the Office of the Chief Judge of the Eighteenth Judicial Circuit. Department representatives were given the opportunity to provide a written response to the results of this internal audit. No written response was received.

I would like to thank Center Superintendent Bernie Glos, the staff of the Purchasing Division, and representatives from Canteen Correctional Services for the fine co-operation and generous assistance provided during this audit.

Sincerely,

OFFICE OF THE COUNTY AUDITOR

James W. Rasins, C.P.A., C.F.E.
County Auditor

JWR:pb

Copy: Chief Judge Robert K. Kilander