



Internal Audit Report

Limited Operational Audit

Port of Seattle Aviation Division – ABM Contract

February 1, 2009 – Present

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of the Aviation Division's contract with American Building Maintenance (ABM) for janitorial services at Sea-Tac International Airport. The purpose of the audit was to determine whether management has established adequate financial and performance monitoring controls and processes.

We reviewed information from February 2009 when the contract was implemented through the end of fieldwork in November 2011.

Management has primary responsibility to establish and implement effective controls. Our role was to assess and test those controls in order to establish whether the controls were adequate to ensure effective management of the contract.

We conducted the 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The current contract lacks specific industry standards and measures, and the Port's oversight and monitoring of the contract with ABM has not been consistent and complete.

We extend our appreciation to the Air Terminal Operations management team for their assistance and cooperation during the audit.



Joyce Kirangi, CPA
Director, Internal Audit Department

Executive Summary

Audit Scope and Objective The purpose of the audit was to determine whether management has adequate and effective monitoring over:

1. Financial management to ensure accountability and completeness.
2. Performance management to ensure compliance and effective oversight.

We reviewed information for the period February 1, 2009 through the end of fieldwork in November 2011.

Background Sea-Tac has historically contracted with a third-party vendor for the janitorial services. The current three-year janitorial contract with ABM was awarded by the Port Commission on January 13, 2009 with the provision for two one-year extensions. ABM is required to provide complete janitorial services necessary to “maintain a level of cleanliness ordinarily associated with the highest industry standard for major airports.” The contract covers the main terminal complex and satellites, comprising approximately 94 percent of total janitorial services areas.

The contract requires ABM to subcontract a minimum of 25 percent of the work to small businesses in accordance with the Port’s Small Business Enterprise (SBE) initiatives. This requirement results in approximately \$2,000,000 in value of work per year for small subcontractors.

Aviation Operations manages the ABM contract. The Port expends over \$8.0 million annually for janitorial services at the airport. The contract cost is charged based on the service area. The size of the agreement in terms of dollar amount is the largest at the Port of Seattle in terms of vendor-related operating expenses.

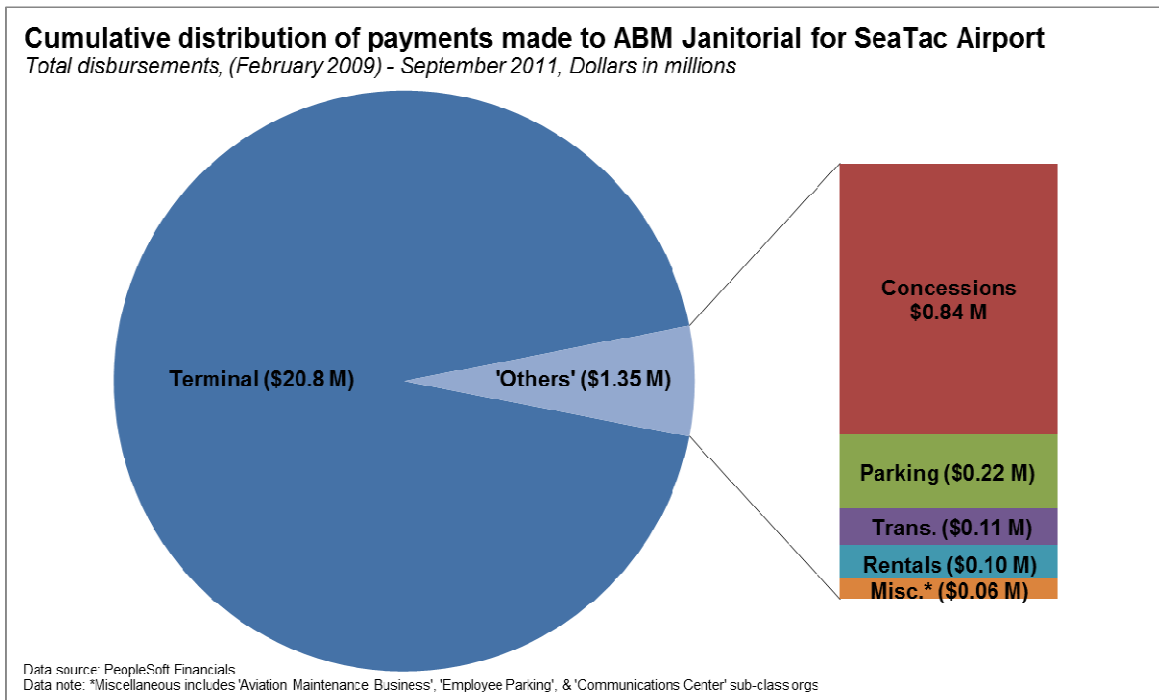
Audit Result Summary The current contract lacks specific industry standards and measures, and the Port’s oversight and monitoring of the contract with ABM has not been consistent and complete. Specifically, we observed lack of (1) performance measures and evaluation tools, (2) independent, Port-directed quality control reviews, (3) cumulative financial analysis and variance reporting to Senior Management, (4) adequate resources dedicated to manage the contract, and (5) written procedures to guide monitoring processes.

Background

Sea-Tac has historically contracted with a third-party vendor for the janitorial services. The current three-year janitorial contract with ABM was awarded by the Port Commission on January 13, 2009 with the provision for two one-year extensions. ABM is required to provide complete janitorial services necessary to “maintain a level of cleanliness ordinarily associated with the highest industry standard for major airports.” The contract, managed by the Aviation Operations Department, covers the main terminal complex and satellites, comprising approximately 94 percent of total janitorial services areas.

The Port pays a flat-rate for ABM’s janitorial services, and has no specific staffing-level requirements. The flat-rate may change if the local prevailing wage for janitors increases, or ABM requests and the Port approves, change orders for work outside of the contract’s original scope. Additionally, the contract requires ABM to subcontract a minimum of 25 percent of the work to small businesses in accordance with the Port’s Small Business Enterprise (SBE) initiatives. This requirement results in approximately \$2,000,000 in value of work per year for small subcontractors.

The chart below shows the cumulative payments made to ABM based on the airport locations from February 2009 – September 2011.



Audit Objectives

The purpose of the audit was to determine whether management has an adequate and effective system of contract monitoring over:

1. **Financial Management** to ensure accountability and completeness in regard to:
 - Budget development, assumptions, and analysis

- Invoicing controls
- Scope of Work changes
- Tag items (Port requested additional janitorial services out of contract scope)
- Contract Change Orders
- Financial impact analysis
- Contract requirements pertaining to SBE, prevailing wages, ABM training program and insurance.

2. **Performance Management** to ensure compliance and oversight in regard to:

- Adequacy and sufficiency of existing performance measures
- Compliance with existing performance expectations and measures
- Contract requirement monitoring including timely/complete submission of required reports and adequate/timely Port management follow-up, as necessary.

Highlights and Accomplishments

- IBM Maximo was recently integrated with janitorial job orders allowing management to track cleaning requests on a daily basis as well as any requests out of contract scope.
- Weekly/Monthly/Quarterly meetings are now being held with ABM to monitor contract performance.
- An ABM report generation structure and schedule has been established.
- ABM is now involved in the identification of facility areas needing enhancements such as fabric (carpet & furniture) selection and flooring (ease of cleanup and durability experience).
- Management has initiated structured walkthroughs occurring at least once a month.
- Weekly janitorial updates are being provided to Senior Management.
- A tag order tracking sheet along with a structured email approval process to do the work has been established, followed by a before and after report.

Audit Scope and Methodology

We reviewed information for the period February 1, 2009 through the present, including activity through the end of fieldwork in November 2011. We utilized a risk-based audit approach from planning to testing. We gathered information through research, interviews, observations and analytical reviews in order to obtain a complete understanding of the ABM Contract and the Port's management of the contract. We conducted an assessment of significant risks and identified controls to mitigate those risks. We evaluated whether processes had been established and controls were functioning as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact of financial and performance management:

I. Financial Management Accountability and Completeness

- We tested budgetary controls including development, assumptions and analysis of the contract and ongoing financial management measures, including assessing the completeness and timeliness of variance reporting.

- We assessed the adequacy of invoicing controls and procedures as specified in the contract. Additionally, we tested all invoices for a nine-month period from January 2010 through September 2010 for proper and complete documentation, submittals and approvals.
- We assessed risk and tested Small Business Enterprise (SBE) and prevailing wage requirements to ensure compliance.
- We reviewed all approvals and analysis of all scope of work requiring change orders during the audit period, including assessing the extent and necessity for the 58 tag items.
- We reviewed management's 2011 3rd Quarter Report to assess the overall impact of ABM's service efforts, costs and accomplishments.

II. Performance Monitoring and Management of the Contract

We tested select attributes from the performance data in ABM's Q.M.S. software (From February 1, 2009 – October 31, 2011) to determine the effectiveness of management monitoring of the contractor's performance.

- *Daily Inspections vs. Traffic:* We tested to determine how well daily janitorial tasks were performed in relation to traffic changes at Sea-Tac. The contract requires ABM to maintain the Port's expected level-of-service during peak traffic periods. We selected spaces requiring six or more daily cleaning tasks and compared their average scores with the traffic levels to assess if scores declined when traffic increased.
- *Daily Inspection Scores:* We tested all daily self-inspection scores from February 1, 2009 – October 31, 2011 to determine how many inspections resulted in scores of 100 percent - completing all daily required tasks to contract specifications.
- *Periodic Inspections vs. Traffic:* We tested to determine how well periodic janitorial tasks were performed in relation to traffic changes at Sea-Tac. We tested to find how many months the contractor completed periodic tasks on-time when traffic increased.
- *On-time Performance:* We tested to determine the percentage of periodic tasks that were completed on-time by category, against the expectation that all tasks be completed on- or before the scheduled close date.
- *Average Periodic Task Delay:* We tested to determine the average delay for periodic tasks in each of the contract years. We compared the average to the expected target by ABM of completing periodic tasks within five days after the scheduled date.

Conclusion

The current contract lacks specific industry standards and measures, and the Port's oversight and monitoring of the contract with ABM has not been consistent and complete. Specifically, we observed lack of (1) performance measures and evaluation tools, (2) independent, Port-directed quality control reviews, (3) cumulative financial analysis and variance reporting to Senior Management, (4) adequate resources dedicated to manage the contract, and (5) written procedures to guide monitoring processes.

Schedule of Findings and Recommendations

I. Contract Limitations

The current contract lacks specific industry standards and measures. The current contract contains an extensive space inventory and task matrix, but lacks specific industry standards regarding how to evaluate janitorial work. The contract provides a detailed list of necessary tasks and frequencies to define a level of “cleanliness,” but it fails to provide a measurable definition of “cleanliness.” Further, the contract lacks specific monitoring and quality control standards to make that determination.

In the absence of clearly defined standards (such as the Building Owners and Managers Association International’s Class-A-B-C building classifications), the Port is limited in its ability to communicate performance expectations and assess contractor performance.

Recommendation

1. Incorporate specific standards to establish performance expectations and assess the quality of janitorial services at Sea-Tac airport.

Management Response

The current contract (flat rate) does not give adequate transparency into ABMs expenses and costs. We will address this issue in the upcoming janitorial RFP so that the situation is corrected in the next contract. In addition, in response to the audit, we have added a detailed process map for invoice oversight and appropriate checks and balances for work performed to ensure standards are met.

II. Inadequate Monitoring

The Port’s oversight and monitoring of the contract has not been consistent and complete. Management did not systematically evaluate janitorial efforts and strategically plan for the efficient use of ABM janitorial services.

Until recently, management had not established adequate monitoring tools to identify chronic deficiencies. Management’s approach during the first two years of the contract, as well as in recent months (to a lesser degree), was based on cursory reviews of scores from the contractor’s self-reported results. These results were sometimes not validated by Port Management’s own independent reviews. The prior approach to monitoring did not consider the use of written strategic targets, measures, or benchmarks to ensure consistent and continuously improving janitorial services.

We observed inadequate management monitoring in the following areas:

a. Performance Management

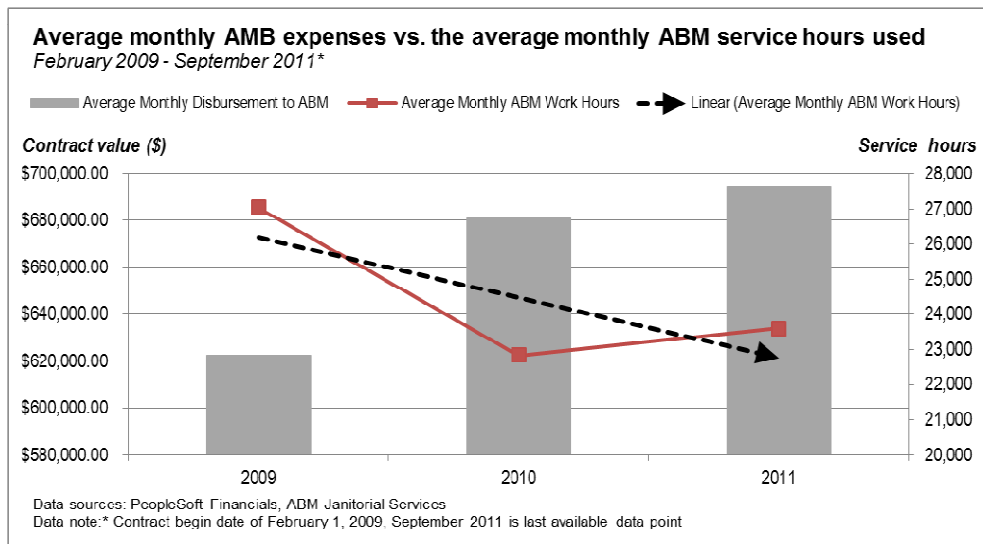
Management has not utilized performance analysis to oversee the extent of work completed as specified in the contract. Both daily and periodic janitorial work has underperformed relative to the contract’s expectations for timeliness. Management oversight has been incomplete with regards to

analyzing the contractor’s self-reported results and developing strategies for correcting performance issues.

Since the contract began in February 2009, the completion rate of the periodic (i.e., weekly, monthly, and annual) janitorial requirements have been consistently low. Of the 7,589 scheduled periodic work requirements, only 30.6 percent were completed on-time. For the 69.4 percent that were completed late, the average delay was 6.11 days past the due date.

For daily janitorial work, the contractor has self-reported inspection scores as the contract allows, but the Port has not critically analyzed the scores to understand how they relate to the expected level of cleanliness. The contract required all tasks be completed with the expected inspection score of 100 percent, but the average daily inspection score during the audit period is 82.65 percent. Further, contractor reported scores are inconclusive as they are not based on any specific industry standard.

The absence of a performance management system resulted in the under-performance of daily and periodic janitorial work tasks, as well as limitations managing the quality of services as measured in a number of staff hours.



b. Organizational Structure/Lack of Written Procedures

The Port has one manager whose time is dedicated up to 40 percent (maximum) to overseeing the ABM contract. We conducted a survey of 26 airports to benchmark janitorial services management structure. The survey indicates that 16 airports (64 percent) had at minimum one manager (whether outsourced or internal) whose responsibilities were fully dedicated to overseeing janitorial services. For example, ABM services both Minneapolis-St. Paul and Pittsburgh International Airports have janitorial service levels that are comparable to Sea-Tac. Both airports have a fully dedicated FTE to manage janitorial services.

For this janitorial contract, the Port had three managers during the course of the audit period. We observed that frequent staff turnover resulted in management gaps of up to several months where there was no daily oversight of the contract. Further, Port Management has no written procedures to promote consistent and efficient monitoring regarding invoicing, contract scope & review, or the intent of the service review meetings held with ABM.

Inadequate management resources, especially in the absence of written procedures, could result in significant start-up periods and void of management oversight for each management transition.

c. Financial Oversight

Management lacked oversight when reviewing the combined impact of both cost increases and service decreases during the contract period. While Management properly reviewed and approved a (cumulative) total of \$2,190,921 in additional disbursements for prevailing wage increases and change orders, there was a decrease in the number of staff hours provided by ABM. While the contract did not specify a minimum number of staff hours, there was lack of awareness of the impact of these two trends.

Despite the significant cumulative cost increases, Senior Management was not informed of their extent via established processes that have been designed for the reporting of such variances at the Division and Commission levels. Consequently, effective financial monitoring was absent.

Recommendations

1. Develop a performance plan for janitorial services that is linked with its strategic goals for Seattle-Tacoma International Airport, including standards to establish performance expectations and assess the quality of services.
2. Establish financial analysis tools and ongoing contract monitoring procedures to assess ABM's overall service efforts and costs.
3. Assess the adequacy of available resources and management structure for overseeing janitorial services.
4. Develop performance-based metrics for evaluating janitorial services.
5. Consider expanding the use of the Quality Management System (QMS) employed by ABM in the management of the contract.
6. Consider exercising its contractual option to have an external consultant conduct a janitorial review/audit in advance of an anticipated new RFP process in 2012.

Management Response

We agree with the recommendations and have created a detailed performance plan directly linked to our strategic goals.

We concur that most airports of like size and cleaning scope benefit from having a manager with responsibility limited only to airport cleanliness. This will be a key consideration in the upcoming RFP preparation work.

The contract lacks specific performance metrics to track performance. The performance plan identifies three key metrics that measure performance of the contractor. In 2012, the contractor will be given improvement targets in these areas.

The QMS system affords the opportunity for auditing by Port designees. Additional auditing by the Port for services rendered will improve performance. The performance plan reflects a significant increase in the number of audits conducted.

The recommendation to seek guidance from an outside expert is sound. We plan to use a consultant to assist in both the development of the RFP for the next contract and, in future, on a yearly basis to provide an independent assessment of the contractor's performance.