

Food Inspections Outsourcing Audit
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Executive Summary

Objective of realized savings achieved by reducing inspection frequency

Opportunities for Improvement

Periodically evaluate and report outsourcing results

Randomly verify inspections conducted by third party vendor

Enhance monthly vendor invoice review

Reconcile converted data prior to go-live date

Retain procurement records

Enhance automation of inspection process

As part of the Fiscal Year 2013 Annual Audit Plan, the City Auditor's Office conducted an audit of Food Inspections Outsourcing. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. 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. The objectives of the audit were to determine whether:

- the objectives of outsourcing are being achieved; and,
- risks associated with outsourcing are adequately and effectively mitigated through appropriate controls.

Pre-outsourcing documents indicate that a significant increase in outsourced inspections was anticipated due to expected growth in non-temporary and temporary events. However, budgetary constraints prohibited the increase in outsourced inspections. In order to meet the \$110,000 departmental budgetary reduction (FY2009), Environmental Health staff assisted the third party vendor with initial health inspections and reduced the frequency of inspections. Management stated that prior to outsourcing, full service and fast food establishments were sometimes inspected three times per year; schools, daycares, retirement centers and hospitals were inspected twice per year; and bars and establishments serving packaged foods were inspected once per year. Currently, a risk-based approach is used. Schools, daycares and retirement centers are inspected twice per year, and facilities with confirmed complaints and/or failures are inspected more frequently.

The City Auditor's Office concluded that the food inspection outsourcing achieved the intended objective of realized savings, by reducing the frequency of inspections. Since the reduced frequency of inspections, based on assessed risk, appeared to have been in compliance with State law and City ordinance, this change

was not considered an exception. It should be noted that management was unable to explain why the number of inspections conducted prior to the outsourcing would have exceeded the minimum number required by State law and City ordinance. A mainframe report generated prior to the outsourcing and prior to migrating to the AMANDA software notes a decrease in food inspections. However, the City Auditor's Office was unable to verify those numbers due to the unavailability of detailed data from the mainframe.

There was no documentation to support why outsourcing food inspections was considered the most cost-effective for the City. Also, the City Auditor's Office was unable to conclude whether the same results could have been realized by simply reducing City staff to the number required for inspections at the reduced frequency.

The City Auditor's Office determined that additional controls were necessary to mitigate the risk of fake inspections, and identified areas that could be improved to promote efficiencies within the current food inspection process.

- Although management ensured that the outsourcing costs were within budget, management was unable to provide documentation to support an evaluation of the efficiency of operations prior to renewing the contract and prior to reassessing the City's cost and its impact on fees assessed.
- The City pays the outsourced vendor for inspections reported and billed to the City. However, the City does not have a process in place to verify that the inspections were actually conducted. The City Auditor's Office concluded that increased automation could prove more efficient and effective, and identified some inspection data that was duplicated during the conversion.
- Management could not provide procurement records supporting the basis for which the outsourcing vendor was selected.

These findings and related recommendations are discussed in the Detailed Audit Findings section of this report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. The following methodology was used in completing the audit.

- Interviewed Environmental Health personnel regarding current policies and procedures
- Reviewed documentation to support costs incurred prior to outsourcing
- Reviewed invoices to support payments to vendor for outsourced food inspections
- Reviewed inspection reports and inspection data recorded within AMANDA
- Traced establishments with active mixed beverage liquor licenses to AMANDA inspection data
- Conducted physical observations of food establishments to validate “out of business” status noted within AMANDA

Due to the unavailability of detailed mainframe records and the unreliability of food inspections data within AMANDA, the City Auditor’s Office was unable to verify the difference in the number of inspections conducted prior and subsequent to outsourcing.

Background

City ordinance requires that an inspection of a food service establishment or commissary be performed at least once annually, and that inspections be prioritized based upon assessment of the food establishment or Commissary’s compliance and potential risk factors for causing food-borne illness. Additional inspections shall be performed as often as necessary for enforcement of City ordinance.

After a review of operating requirements and staffing levels in all City departments, the Financial and Management Resources Department identified a necessary work force reduction as a part of the FY2009 Budget. The FY2009 budget reduction impact on the Community Services Department was \$110,000. The Community Services Department addressed this funding cut by outsourcing City health inspections which resulted in the elimination of five full-time positions, all of which were filled at the time of elimination. The total salary and benefits associated with these five positions were approximately \$310,000. Since the targeted amount was only \$110,000, the remaining savings of \$200,000 were kept in the Community Services Department budget to pay for the contract cost of the outsourced inspections.

Management concluded that outsourcing would help achieve the required budget reduction target while maintaining or enhancing inspection service levels consistent with Council priorities. Management also concluded that while food inspection levels would remain consistent with past City activity, outsourcing would allow the flexibility necessary for the contractor to provide inspections for large events anticipated in the Entertainment District.

On January 21, 2009, the City entered into a three-year professional service contract with Bureau Veritas North America, Inc. (BV) to perform food inspection services for a total of \$1,155,500. The

first one-year renewal was authorized in December 2011 followed by the authorization of a second one-year renewal in October 2012. Per the contract, after the initial three-years or any renewal term, the contract can be extended for additional one-year renewals.

Bureau Veritas began performing inspections on January 23, 2009, billing the City \$100 for each initial risk-based food inspection and \$60 for temporary special event inspections. From FY2009 through FY2011, the City paid Bureau Veritas a total of \$603,160, approximately \$550K less than the contracted amount. Included within the FY2011 payments was \$15,400 for Super Bowl XLV-related inspections and \$2,040 for “Taste of Arlington” inspections. Although two sanitarians were to remain on staff to monitor the outsourcing contract and ensure quality control, audit results indicated that the two City sanitarians conducted initial food inspections that could not be outsourced due to budgetary cuts.

A reorganization in FY2012 moved the Environmental Health function from the Community Services Division to the Community Development and Planning Department.

Detailed Audit Findings

1. Periodic evaluations to determine the efficiency of outsourced food inspections and its impact on the City's cost to regulate do not exist.

Management indicated that prior to outsourcing, Arlington food inspectors sometimes conducted up to three inspections each year, per food establishment. However, in FY2010, management realized that the available funding for outsourcing (approximately \$200K per year) could not sustain the same level of inspection frequency. Management implemented risk-based inspections and reduced the number of inspections to one inspection per year, with the exception of daycares, schools, and retirement centers, which were to be inspected twice per year, and facilities with confirmed complaints and/or failures that were to be inspected more frequently, as deemed necessary. The City Auditor's Office concluded that the City remained in compliance with both the City Ordinance (previously stated at the beginning of the Background section of this report) and the following state requirement.

Section 229.171(h) of the Texas Food Establishment Rules states: "... *the regulatory authority should inspect each food establishment at least once every six months. If the regulatory authority cannot meet this frequency, inspection frequency shall be prioritized based upon assessment of a food establishment's history of compliance with these rules and the potential for causing foodborne illness...*"

While best practices recommend optimizing current processes before considering outsourcing, there was no cost comparison of outsourcing City-conducted inspections at less frequent intervals. Also, although management ensured that the City was operating within budget, there was no documentation to support an evaluation of the efficiency of operations prior to renewing the contract. It is good business practice to routinely evaluate the cost effectiveness and efficiency of outsourced operations. Without such analysis, the cost of outsourcing could be more costly, but not detected and/or reported. Also, when there has been a major change in City processes or operations, it is good business practice to calculate the City's revised cost and ensure that assessed fees reasonably relate to the City's cost to regulate the program.

Within a June 2010 Budgetary Process Audit, the City Auditor's Office referenced outsourcing, noting the need to provide periodic updates on the effectiveness of budget balancing strategies. Establishing standards related to how revised expectations should be communicated to City Council was also discussed. Management responded that during the budget process, packages of revenue and expenditure options are considered and proposed to City Council (or not) based on whether the City Manager feels the options presented to him will maintain, erode, or improve the City's financial position. The quarterly Business Analysis Report was cited as an assessment of the performance of the City's revenues and expenditures. This response, combined with employee turnover and the FY2012 reorganization of the Community Services Department, seems to have contributed to an evaluation based solely on performance within budget.

Recommendation:

The City Manager should require that departmental processes be reviewed for efficiency prior to considering outsourcing, if such a decision is required and the comparison can be conducted in a timely manner.

Management's Response:

Concur. Departments that consider outsourcing will be asked to ensure process improvements and other efficiencies have been maximized. However, should a business necessity (economic downturn, expiration of a time limited opportunity, etc.) dictate a timeframe that does not allow for such consideration, management will proceed with the alternate service delivery option.

Target Date: May 2013

Responsibility: City Manager's Office

Recommendation:

The Community Development and Planning Director should require that food permit fees be routinely reassessed, based upon Environmental Health's cost to regulate.

Management's Response:

Concur. A cursory review of health permit fees is performed at each budget cycle to determine if fees collected cover the anticipated administrative and contracted service costs. A more comprehensive review of health permit fees is scheduled for this year to ensure all cost of service is accurately captured in current fee structure.

Target Date: September 2013

Responsibility: Environmental Health Division

Recommendation:

The Community Development and Planning Director should require that, prior to contract expiration or renewal, outsourced operations be evaluated based on cost effectiveness and efficiency.

Management's Response:

Concur. The Community Development and Planning Department has planned to conduct this evaluation as part of the FY14 budget process.

Target Date: August 2013

Responsibility: Environmental Health Services Division

2. Processes to mitigate the risk that the City could be billed for fake food inspections were not in place.

As previously noted within this report, the City's routine food inspection function was outsourced in January 2009. After completing food inspections, the outsourced vendor is required to submit inspection reports to the Environmental Health Division. The City is then billed for each food inspection noted by the vendor.

Food inspection reports, signed by the inspector and the food establishment's representative, are accepted by the City as documentation that the inspection has been performed. While two signatures are documented, the inspector could forge the signature of the food establishment's representative to make it appear that the food establishment was inspected – when it actually was not. Since City staff does not conduct spot-checks at food establishments for which the City has been billed, the fraud would not be detected and the City would have been charged for an expense that was not incurred.

Controls should be designed to minimize the opportunity of payment for services not rendered. Management indicated that food establishments are encouraged to complete a survey regarding their inspection experience, and that City staff use the survey responses to help validate that health inspections were actually conducted.

Recommendation:

The Community Develop and Planning Director should require that Environmental Health staff establish a procedure whereby billed inspections could be randomly verified.

Management's Response:

Concur. In order to mitigate the risk of being invoiced for inspection services that were not performed, Environmental Health Services personnel began performing random inspections of food establishments on January 10, 2013. Food establishments that did not receive a failing score for which a follow-up inspection is performed were randomly selected for inspection. Approximately fifty (50) random inspections are scheduled to be done each month. To date, one hundred seventy eight (178) random inspections have been performed that validate the outsourced vendor's inspection of the restaurant facility.

Target Date: Complete

Responsibility: Environmental Health Services Division

3. Process to mitigate the risk of duplicate and/or erroneous billings is tedious.

Each month, the Environmental Health Division creates an Excel spreadsheet that is used to assign inspections to City staff and to BV. After conducting inspections, BV sends monthly invoices to Environmental Health in a memo format via .pdf file. Upon receipt of the vendor's monthly invoice, Environmental Health uses the Excel spreadsheet/assignment list to manually verify that an inspection report was received for each billed inspection and to document the vendor payment date.

Environmental Health contacts BV if the City has been billed for an inspection not accompanied by an inspection report. Environmental Health also manually enters inspection data if an inspection report has been received but was not uploaded into AMANDA. (NOTE: In addition to the monthly invoices submitted to Environmental Health, BV submits an upload Excel file to the IT Department. This particular Excel file is then uploaded to AMANDA). Although it may be appropriate to include an inspection that has been omitted from an upload, manual entry by City staff could result in the employee's activity/efforts being questioned. Manual entry also increases the probability of human error for inspection scores, etc. which is later provided to our citizens.

Enhanced automation could be a more efficient process by which to verify vendor billings as opposed to comparing monthly invoices to an Excel spreadsheet. For example, staff could run a report of inspections conducted over the invoiced period, per AMANDA records. Any discrepancies between the vendor invoice and AMANDA data could then be researched.

Recommendation:

The Community Development and Planning Director, in conjunction with the Chief Information Officer, should determine whether it is feasible to develop a report that can be generated for comparison to monthly food inspection invoices and the number of inspections conducted by City staff.

Management's Response:

Concur. The Environmental Health Services Division and Information Technology Department will collaborate to develop an on demand or automated reporting format to generate a report which compares food inspection invoices with inspections performed by the vendor. In the interim, Bureau Veritas has agreed to provide Environmental Health Services with their CSV file from which their invoices are created. This will make inspection and invoice comparisons much simpler than the current process.

Target Date: August 2013

*Responsibility: Environmental Health Services Division
Information Technology Department*

Recommendation:

The Community Development and Planning Director should request that the food outsourcing vendor provide updated upload files whenever an inspection has been omitted from the initial monthly upload file.

Management's Response:

Concur. Environmental Health Services will request that the outsourced vendor provide updated inspection upload files whenever inspection reports have been omitted from the initial inspection upload.

Target Date: April 2013

Responsibility: Environmental Health Services Division

4. Some food inspection data is duplicated within AMANDA.

The Community Services Division utilized SWEEPS (a mainframe system) to track permitting, inspections and related payments. In the City's effort to migrate from the mainframe, SWEEPS data was converted to AMANDA, an enterprise permitting software. The AMANDA go-live date was May 2011.

Outsourced inspections between January 2009 and May 2011 had to be transferred from SWEEPS to AMANDA. During the audit, the City Auditor's Office attempted to compare the number of inspections prior and subsequent to the outsourcing. However, some converted inspection information had been erroneously duplicated within AMANDA.

It was not deemed cost effective to access each AMANDA folder and research potential duplicates. Since the mainframe is no longer operable, the City Auditor's Office was unable to determine whether the erroneous duplicates resulted from management not properly conducting a reconciliation of data prior to the May 2011 AMANDA go-live date or if duplicates existed within SWEEPS but were not identified and corrected prior to the conversion.

When converting data, validation/reconciliation is critical to provide assurance that data was accurately converted. Data that has been erroneously duplicated prevents the identification of accurate trending information, irregularities and/or transactional patterns that could indicate control weaknesses, etc.

Recommendation:

In the future, when data is converted from one system to another, the Community Development and Planning Director should require that queries be run to identify and correct problems with the source data and that staff validate/reconcile the number of records in the new database to the number of records in the old database - prior to pulling the data into a new system.

Management's Response:

Concur. During any future system conversion, Health Services personnel will reconcile the number of records in the new database with the number of transferred records from the old database.

*Responsibility: Environmental Health Services Division
Information Technology Department*

Recommendation:

The Community Development and Planning Director should determine whether it is feasible to remove erroneous duplicates from within the food inspection database. If deemed feasible, the duplicates should be removed.

Management's Response:

Concur. Environmental Health Services will, if feasible, remove erroneous duplicates from the food inspection database.

Target Date: July 2013

Responsibility: Environmental Health Services Division

5. Documentation supporting the basis for vendor selection was not available.

As noted in the Background section of this report, BV was contracted to provide food inspection services on behalf of the City of Arlington. Since the contract was classified as a professional service contract, the procurement was exempt from the competitive bidding process. By state law, professional service contracts are to be awarded based on demonstrated vendor competence and qualifications and for a fair and reasonable price.

Although procurement records should be retained to sufficiently support procurement activity and decisions made, staff was unable to provide documentation to support that a request for proposal had been prepared. The basis for selecting BV also could not be provided. Employees currently responsible for the outsourcing were not involved in the initial procurement process.

Since documentation supporting the procurement was not available, there is no documentation to verify that the procurement was proper. The City also is not in compliance with State records retention guidelines which state that if a formal written contract is the result of a successful bid or request for proposal, the successful bid or request for proposal and its supporting documentation must be retained for the same period as the contract. It should be noted that in accordance with the City's Procurement Policy, departments are authorized to contract for their own professional services, and are responsible for any follow-up, tracking, or protests. The City's Purchasing Division is not responsible for administering professional services contracts. However, the Purchasing Division has developed a User's Guide that is intended to provide guidance that helps ensure that City procurement is conducted in an open and fair manner.

As noted in the Background section of this report, BV bills the City \$100 for each initial risk-based food inspection and \$60 for temporary special event inspections. BV's inspection results are included in the upload file (discussed in Finding #3). The upload file includes food establishment names and addresses, inspection scores, inspector i.d., and inspection dates. However, inspection details (e.g., food with expired dates, rodent droppings, etc.) are not included. As a result, staff manually scan each inspection report into Laserfiche. The number of scanned reports could range anywhere from 1,700 to more than 2,000 each year. Further automation would have eliminated the need to scan inspection reports, and could have resulted in the ability to provide more inspection detail to citizens, if desired by management.

During FY2011, management discussed additional automation with the vendor. However, BV quoted an additional \$30 per initial risk-based food inspection. Incurring an additional \$30 per inspection was not considered to be in the City's best interest. Since procurement documents were unavailable, the City Auditor's Office was unable to determine whether other vendors, if any, provided more automation within their response to the procurement opportunity.

Recommendation:

The Community Development and Planning Director should require that professional service procurement records and files be retained as required by state law.

Management's Response:

Concur. The Community Development and Planning Department assumed management control and oversight of the Environmental Health Services Division in FY 2011. Historical records pertaining to the procurement of professional services for outsourced food inspection services with Bureau Veritas could not be located.

All current procurement and inspection records are being retained in accordance with the City's adopted records retention policies.

Target Date: Complete

Responsibility: Environmental Health Services Division

Recommendation:

The Community Development and Planning Director should include full automation of food inspection reports as an option within future requests for proposals for food inspections.

Management's Response:

Concur. The current professional services contract does not include a provision for the electronic transfer of food inspection reports. The Department will formally solicit a price quote for the added service as an option at the next contract renewal and extension or in association with any new contract for food inspection services.

Target Date: October 2013

Responsibility: Environmental Health Services Division