

AUDIT REPORT

CITY AUDITOR

Report Date:	January 22, 2018
Departments:	Parks, Recreation and Community Facilities (PRCF)
Subject:	Facilities Maintenance Contract Monitoring
Lead Auditor:	Dawn von Epp, Sr. Internal Auditor

OBJECTIVE

This audit was conducted to determine whether the department's contract monitoring processes provide reasonable assurance that vendors comply with contract terms, the City receives what it pays for, and contract related risks are appropriately mitigated.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable City policies and procedures and interviewed department personnel, to identify and evaluate established contract monitoring processes.
- Tested contracts to verify that established contract monitoring processes are followed.
- Tested a sample of invoices processed within the last six months to validate that pricing and deliverables were per the contract terms.
- Analyzed expenditures to verify that contract limits were not exceeded.

BACKGROUND

As of June 2017, Facilities Maintenance staff members were monitoring 23 service contracts, accounting for approximately \$9M of Facilities Maintenance's \$12M non-personnel budget. These contracts cover a range of services such as generator maintenance and repair, custodial services, painting services, landscape maintenance, etc. Field staff members monitor deliverables and vendor performance, while financial staff members verify invoice pricing, process payments and monitor expenditures to ensure budget and contract limits are not exceeded.

CONCLUSION

In our opinion, except as noted below, Facilities contract monitoring processes provide reasonable assurance that vendors comply with contract terms, the City receives what it pays for, and contract related risks are minimized. Our observations and recommendations are summarized below. For additional details and responses from management, see the attached Issue & Action Plans (IAPs).

OBSERVATIONS & RECOMMENDATIONS (summarized)

1. Observation:

Expenditures exceeded approved limits for 3 out of 23 contracts. The overages ranged from \$64,300 to \$101,500 each, totaling approximately \$248,500 for the most recently completed contract year.

Recommendations:

- Use only Delivery Orders to obtain contracted services under a Master Agreement.
- Train and require staff to accurately forecast expenditures.
- Ensure estimated requirements are realistic when contracts are established.

2. Observation:

Staff is not consistently verifying that invoices meet contract terms. From a sample of 70 paid invoices, 3 invoices from 1 vendor included unauthorized labor charges; and 17 invoices from 2 vendors included unverified parts charges.

Recommendations:

- Prior to paying an invoice, verify that all charges on the invoice are accurate and in accordance with contract terms.
- For contracts with a cost+% pricing structure, require the vendor to provide evidence of costs.

Issue and Action Plan #1

Issue #1: Expenditures exceeded contract limits.

Observation: Expenditures exceeded approved limits for 3 contracts, ranging in excess from approximately \$64,300 to \$101,500 each, totaling nearly \$248,500 for the most recently completed contract.

Criteria: Management Policy 200, Procurement Policy and Procedures:

- Section VI. " ...*Procurements and payments shall not be artificially divided to avoid the thresholds set forth in this Policy.*"
- Section VIII, D.1. " ...*Change Order increase requests are subject to the approval requirements in section (A) and (B) above. ...*"

Management Policy 356, Delegation of Signature Authority and Agreement Approval Process:

- Section II. " ... *Dollar limits represent the annual value of the agreement (12-month period) and should include all amendments, change orders, and forms of tangible or in-kind consideration or exchange.*"
- Section IX. " *Except for change orders and contingency allowances authorized in the original City Council approval, contract amendments, contingency allowances, and change orders that change the cumulative annual (12-month period) compensation authorized under the agreement are subject to the approval processes established in this Management Policy.*"

Comments: Facilities exceeded contract limits by using two different procurement methods (Delivery Orders and Purchase Orders) for contracted services. Purchase Order expenditures do not "count" toward the contract maximum in the City's financial system. According to Facilities staff members, the primary reason for this practice was an inability to accurately forecast repair costs.

Recommendation:

- 1-1.** Facilities Maintenance should use only Delivery Orders to obtain contracted services covered under a Master Agreement.
- 1-2.** Management should ensure staff members responsible for contracting and budgeting are adequately trained in forecasting expenditures.

1-3. Facilities Maintenance management should:

- a) Ensure that total expenditures for goods and services covered by a contract do not exceed the approved contract maximum.
- b) Obtain formal approval to raise the contract maximum when such an increase is necessary.
- c) Carefully scrutinize estimated requirements when contracts are established.

**Management
Response:**

Action Plan #1-1:

Staff currently reviews requests for contracted services and issues Delivery Orders covered under the Master Agreement. This was implemented in July 2017.

Individual or Position Responsible: PRCF Purchasing and Accounting Specialist, Accounting Specialist I, Fiscal Analyst

Estimated Completion Date: 7/01/2017

Action Plan #1-2:

Available training classes will be attended by staff as well as conferring with Purchasing on best practices in forecasting and establishing contract limits are realistic and reasonable; this will be an ongoing practice. Sign-off of attended training will be documented.

Individual or Position Responsible: PRCF Purchasing and Accounting Specialist and Fiscal Analyst

Estimated Completion Date: 12/31/2018

Action Plan #1-3:

Contract reports are reviewed monthly for contract capacity. As needed, increases to contracts are requested formally through Financial staff and management approval prior to contract time and money expired. As contracts are established, estimated usage above the quoted contract requirements is provided with a worst case scenario intent.

Individual or Position Responsible: PRCF Purchasing and Accounting Specialist and Fiscal Analyst

Estimated Completion Date: 12/31/2018

Issue and Action Plan #2

Issue #2: Charges are not always checked for compliance with contract terms.

Observations:	From a sample of 70 paid invoices: <ul style="list-style-type: none">• 3 invoices from 1 vendor included unauthorized labor charges.• 17 invoices from 2 vendors included unverified parts charges.
Criteria:	Contract monitoring includes verifying that charges are per the contract terms.
Comments:	<p>One vendor charged additional labor hours for travel time to and from the City, which was not in compliance with contract terms.</p> <p>Some contracts call for parts to be priced at the vendor's cost plus a fixed percentage markup. Therefore, to verify that the charges are correct, one would need to know what the vendor's cost was. However, Facilities staff did not ask the vendor for this information.</p>
Recommendations:	<p>2-1. Prior to paying an invoice, staff should verify that all charges on the invoice are accurate and in accordance with contract terms.</p> <p>2-2. For contracts which include a cost+% pricing structure, staff should require the vendor to provide evidence of their costs.</p>
Management Response:	<p>Action Plan #2-1: Staff currently reviews contracted service charges on invoices based on contract terms. Training (on-the-job) has been in process since April 2017 with new staff and will continue as new staff are hired. This has been implemented and will be an ongoing item of training.</p> <p>Individual or Position Responsible: PRCF Purchasing and Accounting Specialist, Accounting Specialist I, Fiscal Analyst Estimated Completion Date: 12/31/2018</p> <p>Action Plan #2-2: Based on contract terms, staff will begin immediately requesting cost evidence information from vendor per invoice received. Some contracted invoices have already been providing this information.</p> <p>Individual or Position Responsible: PRCF Purchasing and Accounting Specialist, Accounting Specialist I, Fiscal Analyst Estimated Completion Date: 12/31/2018</p>