



CONSENT CALENDAR

Office of the City Auditor

July 25, 2000

TO: Honorable Mayor and
Members of the City Council

FROM: Ann-Marie Hogan, City Auditor

Subject: REPORT ON COMMUNITY AGENCY CONTRACT ADMINISTRATION
AND MONITORING

RECOMMENDATION:

That Council request the City Manager report back to Council by early January 2001 regarding progress made in implementing the auditors' recommendation in the attached report. An advance copy of this report should be submitted to the auditors according to the City Clerk's agenda review guidelines.

BACKGROUND:

The attached report:

- Identifies all City contracts that provide community agencies funding during fiscal year 2000 (as reported by City department directors).
- Estimates the direct labor cost for departments to award, administer, and monitor community agency expenditure contracts during fiscal year 2000.
- Identifies employee suggestions for improving City administration and/or monitoring of community agency expenditure contracts. Suggestions are from staff working in these areas.

Almost all of the information in the report was obtained from questionnaires completed by City staff that administer and/or monitor community agencies that receive funding from the City. The information in the report was obtained primarily to plan a community agency contract audit that will be performed in fiscal year 2001. By providing City management and Council with the information that we obtained, we hope to stimulate discussions that will lead to improvements in the administration and monitoring of community agency expenditure contracts.

The report recommends that the City Manager hold meetings with all contract administrators and monitors involved with community agencies that receive funding from the City. At these meetings, it was recommended that contract administration and monitoring concerns be discussed, and resulting policy and procedure improvements be implemented.

According to staff estimates, departmental cost for community agency contract administration ranges from 3% to 20% of the dollars granted to the agency, or from \$1,567 to \$12,036 per contract. Administrative costs were estimated at \$782,334 for 209 contracts, valued at \$11,670,307. An average cost of \$3,743, or 7%, for an average contract value of \$55,838, was reported. These costs did not include administrative services from other departments, such as Legal, Risk Management, or the City Manager's office.

FINANCIAL IMPLICATIONS:

We believe that City staff will identify and implement community agency contract administration and monitoring improvements that will result in better services and improved accountability from community agencies.

If recommendations to increase staff resources devoted to agency monitoring are brought forward, the Council will need to evaluate the cost and benefit of resources given directly to the agencies compared to staff time spent in efforts to ensure more effective service delivery.

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Report on Community Agency Contract Administration and Monitoring

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INTRODUCTION

This report:

- Identifies all City contracts that provide community agencies funding during fiscal year 2000 (as reported by City department directors).
- Estimates the cost for departments to award, administer, and monitor community agency expenditure contracts during fiscal year 2000.
- Identifies employee suggestions for improving City administration and/or monitoring of community agency expenditure contracts. Suggestions are from staff who work in these areas.

Information in this report was obtained primarily to plan a community agency contract audit that will be performed in fiscal year 2001. The audit survey work performed was part of our work plan for fiscal year 2000. By providing City management and Council with the survey information that we obtained, we hope to stimulate discussions that will lead to improvements in the administration and monitoring of community agency expenditure contracts.

SCOPE AND METHODOLOGY

This report provides information about community agency expenditure contracts, their award, administration, and monitoring, during fiscal year 2000. For purposes of this report, a community agency is defined as a non-profit agency that provides a benefit to the Berkeley community. Information in this report was obtained as follows:

1. Each City department director was asked to identify:
 - A. all community agency expenditure contracts / grants that their department would administer during fiscal year 2000. Specific information about each of these contracts, such as the approximate amount and source of fiscal year 2000 funding, was also requested.
 - B. all staff in their departments that would award, administer, and/or monitor community agency expenditure contracts during the year.
2. All City personnel involved in the award, administration and/or monitoring of community agency expenditure contracts during fiscal year 2000 (those identified in step 1 above) completed a questionnaire. The questionnaire (Exhibit 1) primarily asked these employees to:
 - A. estimate the time they would spend awarding, administering and monitoring community agency contracts during fiscal year 2000.
 - B. identify concerns, or share ideas, for improving City policies and procedures pertaining to community agency contract administration and monitoring. This information was reviewed by the auditor to identify recurring concerns and recurring ideas for improvement.

Report on Community Agency Contract Administration and Monitoring

3. Employee time estimates to award, administer and/or monitor community agency expenditure contracts during fiscal year 2000 were dollarized using payroll records. These labor expense estimates were increased by 40% to approximate the additional cost for employee fringe benefits. This information was then summarized by department.

Information in this report has not been audited. However, before this report was issued, representatives from each department administering community agency expenditure contracts were asked to review the report for accuracy and completeness. Work performed by the auditor was performed in accordance with Government Auditing Standards as prescribed by the Comptroller General of the United States.

The Auditor's Office would like to thank all participating City staff who contributed their time and knowledge and helped make this report possible.

PART 1 – COST TO ADMINISTER COMMUNITY AGENCY CONTRACTS

The schedule below summarizes community agency contract award activity, by department, for fiscal year 2000. It also estimates the cost incurred by each department to administer and monitor these contracts during fiscal year 2000.

Departments Administering Community Agency Contracts	Number of Contracts	Dollars To Be Awarded During Fiscal Year 2000 (Approximate)	Estimated Labor Cost for Administration and Monitoring	Estimated Labor Cost* As a Percentage of Contract Dollars Awarded	Estimated Average Labor Cost Per Contract*
Housing	62	\$5,087,764	\$292,718	6%	\$4,721
Health & Human Services	56	2,312,433	227,186	10%	4,057
Public Works	7	2,053,360	84,252	4%	12,036
Economic Development	66 **	896,895	103,397	12%	1,567 **7,386
Parks & Waterfront	7	385,900	13,552	4%	1,936
Information Systems	2	256,500	6,461	3%	3,231
Police	3	255,000	8,499	3%	2,833
Budget & Fiscal Mgmt.	1	152,955	5,034	3%	5,034
Rent Board	3	135,000	26,994	20%	8,998
Planning	2	134,500	14,239	11%	7,120
Total	209	\$11,670,307	\$782,334		
Average				7%	\$3,743

* = Department administering contracts only. Excludes support departments.

** = Includes 53 small Civic Arts Grants which range from \$700 to \$2,000 (No formal contract); larger labor cost shows cost if these were considered to be one contract.

Report on Community Agency Contract Administration and Monitoring

Ten City departments reported that they would administer 209 community agency contracts during fiscal year 2000. They further reported that these contracts would award approximately \$11,670,307. Exhibit 2 identifies all 209 contracts identified by the departments.

Housing, Health and Human Services, and Public Works reported that they would administer the contracts that award the most money to community agencies. Together, these three departments were expected to administer a total of 125 (60%) contracts. These 125 contracts comprise \$9,453,557 (81%) of the total \$11,670,307 expected to be awarded to community agencies during fiscal year 2000.

The total cost for all 10 departments to administer (including the award) and monitor these 209 contracts is estimated at \$782,334 (\$458,001 to administer, \$324,333 to monitor). In other words, each time a community agency expenditure contract is awarded during fiscal year 2000, it is estimated that an additional 7% of the contract amount will be spent by the administering department to award, administer and monitor the contract. This labor cost estimate has been further broken down into four administrative tasks and five monitoring tasks. This information is provided in exhibits 3 and 4. The cost to award and process a contract appears to be the largest expense. It represents about 24% of the total estimated administration and monitoring cost for a contract. Next is the cost for payment processing, at 19%.

Information provided by City staff shows that the estimated cost to administer and monitor contracts can vary significantly between departments and between contracts. While the labor cost for departments to administer and monitor a community agency contract averaged 7% of the total contract amount, the labor cost provided by individual departments ranged from 3% to 20%. Additional work was not performed to identify the reason(s) for this variance. Therefore, this information should not be used by itself to determine if a department is administering and monitoring their community agency contracts efficiently and effectively.

A department reporting higher than average administration and monitoring costs may do so for a number of acceptable reasons, such as:

- The community agency contracts they administer may be more complex or have more problems than those managed by another department.
- The agencies they contract with may require more assistance than those managed by another department.
- Time to administer and monitor community agency contracts are judgmental estimates (provided by the staff that perform these tasks), and therefore may be higher than actual time spent.

On the other hand, a department may also report lower than average administration and monitoring costs for a number of acceptable reasons, such as:

- The department is efficient and effective at performing these tasks.
- Some administration and monitoring tasks are not being performed, either because they do not need to be performed, or for other reasons.
- Time to administer and monitor community agency contracts are judgmental estimates (provided by the staff that perform these tasks) and therefore may be lower than actual time spent.

PART 2 – STAFF CONCERNS & SUGGESTIONS REGARDING CONTRACT POLICY AND PROCEDURES

All City staff known to be involved in the award, administration and/or monitoring of community agency expenditure contracts responded to our questionnaire. Fifty-five individuals comprised this group. Additionally, four civic arts commissioners (not employees), with contract involvement, also responded to our questionnaire. Four of the questions asked participating staff to identify contract administration and monitoring concerns, or ideas for improvement (Questions 6, 8, 9 and 11 in the survey). Exhibit 5 provides all the responses to these questions (lengthy responses have been summarized by the auditor). These four survey questions, and auditor comments based on a review of responses to these questions, follow:

Question 6 from Survey

Do you feel it would be in the City's best interest if your department spent more time monitoring community agencies that receive City money? Please explain. (Response follows)

Yes = 25

No = 15

Don't Know = 19

A 42% "yes" response supports a conclusion that a significant number of City staff feel it would be in the City's best interest if their department spent more time monitoring. There were various explanations provided for why a "yes" response was given. Eight questionnaire respondents (including one who gave a "no" response) felt that their department lacked the funding, expertise, or time to increase monitoring activity. Resources to provide adequate contract monitoring may not always be available.

Six out of seven survey participants in the Housing Department answered yes to question 6. Three of the six stated that Housing did not have the staff to increase the amount of time spent monitoring. During fiscal year 2000, the Housing Department will administer more than \$5 million dollars in community agency expenditure contracts, more than any other department. In a follow-up discussion with staff, it was suggested that it might be appropriate to consider assigning more resources to monitoring. Increased monitoring by Housing staff could result in improved monitoring and better City assistance for agencies.

Question 8 from Survey

Please share any ideas that you have which you believe would improve current City policy and procedure regarding community agency contract administration.

None of the suggestions for improving the City's community agency contract administration policies and procedures recurred frequently. Questionnaire respondents most frequently provided a response that centered on a need for improved contract processing policies and procedures. They asked for a simpler, standardized, and faster process. Fifty three percent of the returned questionnaires voiced an

idea or a concern. In order to identify ideas that would improve current City policies and procedures in these areas, respondents and their managers should consider meeting and discussing this topic.

Question 9 from Survey

What specific actions, if any, can City Council and/or the City Manager take to help you improve your ability to administer community agency contracts?

Thirty two percent of the respondents (nine of the 28 that responded to this question) asked that Council discontinue awarding funds to community agencies on a noncompetitive basis, or if they do, implement procedures that insure City staff receive the information they need to prepare a proper contract. Some respondents stated that awards made directly by Council were not fair to the other agencies that followed established procedure for applying for City funds. Others stated that direct Council awards made it difficult for them to determine if an award they were to administer had been made, and difficult to prepare a contract.

Other recurring responses to this question were far less frequent. Four respondents requested additional staffing for community agency contract administration, mostly in the area of civic arts contracts. Three of these respondents were Civic Arts Commissioners. Three respondents also requested that changes be made so contract processing for small contracts could be administered using less time. Just using purchase orders or vouchers was suggested. Two respondents requested that changes be made so contract payments for small contracts could be processed using less City staff time. Centralized contract monitoring and /or more unified procedures were suggested, as were more audits. Some of the ideas presented may not be applicable to everyone, but may provide a real benefit on a smaller limited scale.

Question 11 from Survey

Please provide us with any information, comments, or opinions, pertaining to the subject matter in this questionnaire that you feel is important and the questionnaire did not address.

Few responses to this question were received. Those received did not identify a noticeable pattern of information, comments, or opinions.

AUDITOR'S RECOMMENDATION

Recommendation For City Manager's Office

We recommend that the City Manager hold meetings with all community agency contract administrators and monitors. These meetings should accomplish the following:

- A. Identify where contract monitoring is insufficient. Determine how monitoring can be increased in these areas. Since six out of seven questionnaires from Housing indicated their

department should spend more time monitoring, monitoring in Housing should be analyzed in particular.

- B. Discuss problems and concerns resulting from Council's noncompetitive awards to community agencies. Identify the best way to resolve problems resulting from this practice.
- C. Identify and discuss ideas for improving contract processing by making it simpler, standardized, and faster.
- D. Provide an opportunity for contract administrators and monitors to identify "best practices" and possible training needs.

Policy and procedure improvements resulting from these meetings should be implemented citywide. A number of areas of possible improvements to community agency contract processing would require Council action. Such actions could include changes to Council policy regarding the awarding of contracts, as well as changes in the level of resources allocated to contract monitoring. The City Manager should return to Council for policy direction if appropriate.

Response From City Manager's Office

The City Manager agrees with the recommendation to hold meetings with contract monitors to improve community agency monitoring. The agenda for the meetings will be expanded to include the development of a citywide work plan to improve community agency contract monitoring, a set of skill requirements for monitors, a training program to address skill gaps (i.e. accounting, etc.), as well as looking at expanding monitor role to include a qualitative program evaluation.

Additional outcomes will be developed in association with the contract monitors.

The problem that occurs when Council awards non-competitive contracts to community agencies was partially addressed in the most recent budget deliberation. Council agreed that a scope of service for a new contract must come back to Council for approval prior to issuance.

A progress report will be submitted to Council in January 2001.