



Office of the City Auditor

CONSENT CALENDAR

October 6, 2015

To: Honorable Mayor and Members of the City Council  
From: Ann-Marie Hogan, City Auditor  
Submitted by: Ann-Marie Hogan, City Auditor  
Subject: Audit Report: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance

RECOMMENDATION

Request the City Manager report back by April 26, 2016, and every six months thereafter, regarding the status of recommendations until reported fully implemented.

CURRENT SITUATION AND ITS EFFECTS

Our review of invoices and contract start dates for 226 expenditure contracts initiated in fiscal year 2014 indicated that the City incurred costs for services not authorized by fully executed contracts in 15 or 7 percent of contracts. While this continues to be an area of concern, it represents a vast improvement over the City's 58 percent non-compliance rate noted in our [Citywide Contract Compliance Audit Report](#), issued May 18, 2004.<sup>1</sup> We commend the City for its efforts and challenge management to address long-standing barriers to efficiency, timeliness, and compliance. Management can meet these challenges by:

- Enhancing the current training program for project managers to ensure that they have the proper knowledge, skills and abilities to perform their duties. The training should address effective planning strategies, including the use of timelines with key milestone dates and spreadsheets to track and monitor contracts.
- Working with Information Technology to turn an ad hoc query of expiring contracts into an On Demand report that project managers can access as needed and use as a tool for ensuring that they initiate the contract renewal process timely.
- Requiring departments to document department-specific procedural guidance for contract project managers and support staff, including expected timeframes for specific actions, and aligning contract needs with department work plans to ensure timely contract execution.
- Planning for a true contract management system that will allow City staff to streamline contract preparation, review, and approval; and eliminate redundancies.

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<sup>1</sup>[http://www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/ContractReportfinalwcmchanges.pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/ContractReportfinalwcmchanges.pdf)

### FISCAL IMPACTS OF RECOMMENDATION

The City incurred costs of over \$80,000 for services provided on 15 new expenditures contracts before the agreements were executed. Services provided and the associated costs incurred without an executed contract are by definition unauthorized and represent work done without the contract covenants in place to protect the City from legal ramifications.

The City could free up staff time for more productive use by reducing the resources devoted to the resubmission of incomplete or incorrect contract packages. The General Services Manager estimates a rejection rate of about 40 percent on initial contract submissions. This requires additional staff time to make corrections not only by the General Services Manager, but also departmental staff time.

### BACKGROUND

The City of Berkeley entered into or amended over 560 contracts during fiscal year 2014 for projects ranging from infrastructure improvements to veterinary care. This included both expenditure and revenue contracts valued at approximately \$137 million: \$24 million in revenue agreements and \$113 million in expenditure agreements.

Contract administration for the City is centralized in the Finance Department, under the General Services Manager. The General Services Manager reviews contract packages for completeness and serves as the single point of contact for the departments' project managers. Project managers are responsible for initiating the procurement process, shepherding contract packages through the approval process, and monitoring contract activity. Together, the General Services Manager and project managers are the primary players in the administration of City contracts.

### ENVIRONMENTAL SUSTAINABILITY

Our office manages and stores audit workpapers and other documents electronically to significantly reduce our use of paper and ink. The purchase of a contract management system that allows for automated workflows, reviews, and approvals provides an opportunity to further reduce the City's use of paper and ink.

### RATIONALE FOR RECOMMENDATION

Implementing our recommendations will help the City to further enhance and streamline its contract management function.

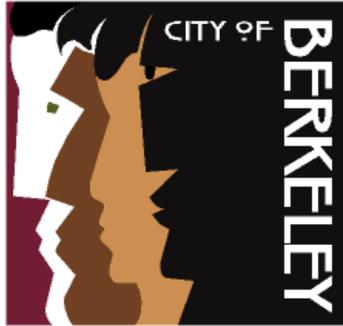
### CONTACT PERSON

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### Attachments:

- 1: Audit Report: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance

# City of Berkeley Office of the City Auditor



## **Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance**

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Presented to Council October 6, 2015

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# City Of Berkeley - Office Of the City Auditor

## Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance

October 6, 2015

### Purpose of the Audit

We conducted this audit to determine whether the City of Berkeley had allowed vendors to perform work without a fully executed contract in place, as well as to identify the root cause(s), costs incurred, and risks associated with any unauthorized services.

### Executive Summary

**Only 7% of contracts incurred costs before the City secured the agreements; vast improvement over 2004 rate of 58%**

Our review of invoices and contracts for 226 expenditure contracts entered into in fiscal year 2014 indicated that costs incurred for vendor services were not authorized by fully executed contracts in 15, or 7 percent, of contracts. In total, the City incurred over \$80,000 in costs for vendor services prior to the City Manager's final review and approval of the contracts in question. In some instances, costs incurred were for services provided months in advance of final approval, leaving the City unnecessarily exposed to financial risks. While this continues to be an area of concern, it represents a vast improvement over the City's 58 percent non-compliance rate noted in our [Citywide Contract Compliance Audit Report](#), issued May 18, 2004. We commend City staff for their efforts and challenge management to attend to the long-standing barriers that must be addressed to ensure that all vendor services are authorized by fully executed contracts.

**Long-standing barriers to effective contract management must be addressed to achieve full compliance**

**Contract management system, better training, and better planning are necessary tools for success**

The primary obstacles preventing the City from executing all of its contracts in a timely manner are (1) the lack of an effective contract management system; (2) inadequate training and procedural guidance for staff assigned as project managers; and (3) inadequate planning for contracts.

The existing contract management system is a management system in name only. It cannot provide automated workflows for contract review and approval. Nor does it have the ability to manage contract milestones through automated alerts. Most important, it does not provide for a citywide, structured process to manage contract creation and execution. As a result, project managers are not always aware of the current status of their contracts, which in turn has allowed costs to be incurred for services performed without executed contracts.

**High rejection rates on contract packages and lack of clarity on the role of project managers indicate the need for better training for employees**

In addition, several factors indicated a need for better training and professional development for employees assigned as project managers. According to Finance, about 40 percent of contract packages submitted to General Services are returned to the departments for corrections, sometimes doubling the review and approval time. Project managers were not always clear on what constitutes a fully executed contract, on the risks associated with allowing vendors to commence services without contracts, or on their roles as project managers.

**Better planning is needed to provide coverage for much needed services**

Finally, management needs to improve overall planning to ensure contract coverage for important services, such as veterinary care, public safety, and towing. Most of the costs incurred for unauthorized services occurred due to lack of planning to ensure that the procurement process was completed before the current contracts expired. Reasons cited for lapsed contract coverage included failure to initiate the procurement process in a timely manner, absence of key personnel, and lack of procedural guidance on the procurement process.

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## **Recommendations**

Our recommendations are focused on providing the City a stronger framework for managing its contracts to ensure that costs incurred for vendor services are authorized by fully executed contracts. This includes:

- Enhancing the current training program for contract project managers to ensure that they have the proper knowledge, skills and abilities to perform their duties. The training should address, among other things, effective planning strategies, including the use of timelines with key milestone dates and spreadsheets to track and monitor contracts.
- Working with Information Technology to turn the ad hoc query of expiring contracts into an On Demand report that project managers can access as needed and use as a tool for ensuring that they initiate the contract renewal process on a timely basis.
- Requiring departments to document department-specific procedural guidance for contract project managers and support staff, including expected timeframes for specific actions, and aligning contract needs with department work plans to ensure timely contract execution.
- Planning for a true contract management system that will allow City staff to streamline contract preparation, review, and approval; and eliminate redundancies.

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A full copy of the report can be obtained at:

[http://www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/A.2\\_RPT\\_Citywide%20Contracts%20Review\\_Issue%20Fiscal%20Year%202016.pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/A.2_RPT_Citywide%20Contracts%20Review_Issue%20Fiscal%20Year%202016.pdf)

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## AUDIT OBJECTIVES

We conducted this audit to determine whether the City of Berkeley had allowed vendors to perform work without a fully executed contract in place, as well as to identify the root cause(s), costs incurred, and risks associated with any unauthorized services. We performed the audit as a limited scope follow-up review of our [Citywide Contract Compliance Audit Report](#), issued May 18, 2004.<sup>1</sup>

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## BACKGROUND

### **The City contracts with local vendors to obtain a wide array of services**

The City of Berkeley entered into or amended over 560 contracts during fiscal year 2014 for projects ranging from infrastructure improvements to veterinary care. This included both expenditure and revenue contracts valued at approximately \$137 million: \$24 million in revenue agreements and \$113 million in expenditure agreements. Nearly every agency in the City, including the City Library and Rent Stabilization Board, had expenditure contracts in place. Types of services contracted typically include services not handled by city employees, such as:

- Resurfacing and/or rehabilitating streets;
- Veterinary care;
- Guard services;
- Janitorial services;
- Vehicle towing services.

General Services Manager and Project Managers are the key players in contract management

Contract administration for the City is centralized in the Finance Department under General Services. The General Services Manager reviews contract packages for completeness and serves as the single point of contact for the departments' project managers. The project manager function is typically a collateral duty assigned to an employee who has some knowledge in the subject area. Project managers are responsible for initiating the

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<sup>1</sup> Citywide Contract Compliance Audit, May 2004: [http://www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/ContractReportfinalwcmchanges.pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/ContractReportfinalwcmchanges.pdf)

procurement process, shepherding contract packages through the approval process, and monitoring contract activity. Together, the General Services Manager and project managers are the primary players in the administration of City contracts.

City provides multi-media tool chest to assist employees in managing contracts

The City has several tools to assist employees in navigating the procurement process, including the Contract Management System, Purchasing Manual, and Contracts Online.

- The Contract Management System (CMS) is an in-house database designed in the early nineties that simply allows users to track the progress of contracts in the review process.
- The Purchasing Manual provides the policy framework for initiating and completing contracts.
- Contracts Online is a website on the City's intranet that provides general procedural guidance, including numerous templates designed to help streamline the contract preparation process.

City Auditor follow-up on prior contract compliance audit

The City Auditor's Office previously reviewed contract compliance in its [Citywide Contract Compliance Audit Report](#), issued May 18, 2004. The previous report found that project managers had allowed commencement of work prior to contract approval for 58 percent of expenditure contracts during the 21-month period reviewed. In addition, the audit determined that the CMS database could not be relied upon for data analysis due to numerous errors and omissions in key data, such as CMS numbers, contract amounts, and expiration dates.

For the purposes of this follow-up audit, we limited our scope to determining whether the City had made improvements to prevent the commencement of work by vendors before contracts are fully executed.

## FINDING AND RECOMMENDATIONS

### **Finding 1: The City vastly improved its performance in securing fully executed agreements before contract work commences, but barriers to full compliance must be addressed**

Our review of 226 expenditure contracts entered into in fiscal year 2014 determined that the City did not have fully executed contracts in place prior to commencement of services in 15 of those contracts, or 7 percent. In total, the City incurred costs in the amount of \$80,498 for vendor services provided without fully executed contracts in place. While this continues to be a problem area for the City, it represents a vast improvement over the 58 percent non-compliance rate identified in our [Citywide Contract Compliance Audit Report](#), issued May 18, 2004. In addition, we noted that the General Services Manager was diligent in ensuring that all vendors were covered by liability insurance, thereby mitigating somewhat the risks associated with vendor services performed without an executed contract in place. We commend the City for its significant improvement in this area, but challenge management to address long-standing barriers that are standing in the way of achieving full compliance. These barriers include (1) the lack of an effective contract management system, (2) inadequate training and professional development for staff assigned as project managers, and (3) inadequate planning for contracts.

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### **Contract Management System lacks the minimal capabilities required of an effective contract management system**

The City's software for managing its contracts is the Contract Management System (CMS), a software program developed approximately a quarter century ago, on the eve of the internet era. The system does allow for some tracking of contracts through the procurement process; however, it lacks the minimal capabilities required of an effective contract management system, namely: (1) automated workflow for contract review and approval, (2) the ability to manage contract milestones through automated alerts, and (3) a citywide, structured process to manage contract creation and execution.

CMS limitations discussed in two previous audits

We previously commented on the limitations of CMS both in our [Citywide Contract Compliance Audit \(2004\)](#) and our [Leases Audit: Conflicting Directives Hinder Contract Oversight \(2009\)](#) reports.<sup>2</sup> While management has recognized the need to upgrade to a more

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<sup>2</sup> City Auditor List of Issued Audits: <http://www.cityofberkeley.info/ContentDisplay.aspx?id=7236>

effective contract management system, it deemed such an undertaking not feasible when previously discussed. If feasibility continues to be an issue, then management should work in the interim to develop in-house solutions to assist project managers with their contract oversight duties. Total costs incurred for services performed without executed contracts are shown in the table below.

**Costs Incurred for Services Performed Prior to Contract Approval**

Periods during which the City allowed for services without an executed contract ranged from one day to over six months

<u>Days Elapsed Before Approval</u>	<u>Invoice Date</u>	<u>Date Contract Executed</u>	<u>Costs Incurred</u>	<u>Contract No.</u>
202	07/31/13	02/18/14	1,158.67	9562
183	01/31/13	08/02/13	1,682.72	9406
109	07/01/13	10/18/13	85.00	9475
68	08/28/13	11/04/13	840.00	9488
34	10/01/13	11/04/13	5,500.00	9489
25	07/08/13	08/02/13	85.00	9409
24	07/05/13	07/29/13	44.48	9403
22	07/11/13	08/02/13	65.00	9411
17	07/01/13	7/18/13	35,000.00	9388
16	08/19/13	09/04/13	2,223.93	9437
13	08/01/13	08/14/13	2,409.50	9416
13	12/18/13	12/31/13	2,681.67	9534
6	02/28/14	03/06/14	26,335.15	9577
2	08/14/13	08/16/13	393.90	9415
1	01/07/14	01/08/14	1,993.05	9541
		Total:	\$80,498.07	

Costs incurred for vendor services on unexecuted contracts ranged from \$44 to \$35,000

**Average Elapsed Days = 49**

**Note:** Of the 226 contracts included in our contracts review, only these 15 had contract work performed before full contract approval. Also see Appendix A for sample selection methodology.

**City needs to provide a more robust training regimen to better prepare employees for their roles as project managers**

The absence of an effective contract management system requires greater reliance on proactive and well-trained project managers and support staff to ensure that contracts for City services are in place when needed. It is management's responsibility to ensure that project managers have the knowledge and skills necessary to perform their duties. However, based on our interviews and interactions with the departments' project managers, management is not adequately preparing employees for their duties as project managers or as support staff for contract administration. Inconsistent practices, uncertainty regarding basic contract elements, and high rejection rates on contract submissions all suggest the need for a more robust training regimen for project managers and for all those who provide support to project managers.

Project manager responses indicate uncertainties concerning elements of contract management

We noted a pattern of uncertainties among project managers in response to questions regarding contract management and their roles as project managers or as support staff who assist project managers with contract administration. There was some confusion over basic elements of contract management, such as the definition of a fully executed contract. Most understood that a contract is not executed until it is signed by all parties to the agreement, including the City Manager. Some had differing views on when a contract becomes valid, e.g., when the contractor signs the contract, when the first purchase order is received, or when the contract is signed by the City Auditor. Some simply did not know. In at least one instance, the confusion over the contract process directly contributed to a lapse in contract coverage. In this instance, a department obtained a resolution from City Council to amend an existing contract that was about to expire. However, the department did not initiate a contract amendment, thinking that the resolution was sufficient. As a result, the contract expired without a contract extension or a new contract in place. The City continued to pay on invoices submitted under the expired contract until encumbered funds ran out.

Project manager contract files varied from well-documented to non-existent

We also found a wide variation in the documentation maintained by project managers in their contract files, for those who maintained files. Some kept a copy of the contract along with correspondence pertaining to the contract. Some maintained only a copy of the contract. One had a copy of the previous contract, but not the current one. And some did not maintain any documentation. The level of documentation maintained may depend on the scope and complexity of the contract, and may to some degree be a matter of personal preference. However, the broad variance indicates the lack of any procedural guidance as to the minimum level of documentation required to effectively manage a contract.

General Services Manager estimates that about 40 percent of contract package submissions are returned to the departments due to errors or omissions

Finally, the General Services Manager estimates that about 40 percent of contract packages submitted for review are returned to the departments, mostly due to errors or missing information. The Purchasing Manual allows the General Services Manager a three-day review period. According to the General Services Manager, reviews typically range from one to four days but may take as long as six days when taking into account the additional time required for corrections and resubmission. However, corrections related to bonding issues or changes in contract terms may take from two to three weeks to process. The delays in processing due to minor errors or omissions are not significant, and for the most part would not have been the difference between contracts being executed on time, or not. However, the two to three week delays associated with bonding issues or changes in contract terms are significant.

Training courses do not adequately prepare employees for the task of managing contracts

The City does provide a basic training course on project management. However, the course focuses primarily on time management skills, rather than on the legal or process-oriented aspects of contract management. Finance also periodically provides courses on the contract procurement process. However, as with Contracts Online, the courses are generally higher level, focused on definitions and processes, rather than practical guidance. To better prepare employees for their role as project managers, the City should develop a training regimen designed to improve day-to-day contract management skills.

Project managers believe the level of risk associated with vendor services provided without executed contracts varies depending on the services

When asked about the risks associated with vendors commencing work for the City before contracts are fully executed, the majority of project managers described the risk as minimal to none. Indeed, one project manager felt that the risk of delaying vendor services was greater than the risk of the work starting before obtaining the City Manager’s final approval. In general, the responses were commensurate with the relative scope and complexity of the contract in question. For instance, the risks associated with a long-term, city-to-vendor relationship for towing services or for routine maintenance were viewed as relatively low risk. By contrast, professional level services, such as veterinary care, are considered higher risk if not formally approved by the City Manager prior to commencement of work. Ultimately, the best solution is to address the root cause of the process delays and put safeguards in place to ensure that all approvals are in place prior to commencement of services.

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**Project Managers cite insufficient planning as the primary cause for contracts not executed in a timely manner**

Project managers more often than not cited insufficient planning as the primary reason for why some contracts were not executed in a timely manner. In some instances, project managers indicated that they were not prepared for the significant amount of time required to get from the initial request for procurement to the executed contract. Some project managers identified dealing with competing priorities as the root cause. However, we interpreted this as falling under the general umbrella of inadequate planning. The General Services Manager at least annually provides project managers with a list of all contracts expiring at the end of the calendar year and fiscal year, which one project manager acknowledged as helpful. The General Services Manager should continue to provide this courtesy service and work with Information Technology to allow for project managers to access the report as needed.

Project managers are largely on their own in regards to procedural guidance

Project managers do have access to the City’s Contracts Online feature, which provides useful templates, flowcharts, and other general procedural guidance. However, as a citywide tool it provides general procedural guidance only, not department-specific guidance, such as how to align contract needs with department work plans and how duties are shared between project managers and support staff. It is also limited in the area of

performance-related guidance, such as expected timeframes for completion of specific actions, timelines with key milestone dates, or effective planning and monitoring strategies that would assist project managers in their day-to-day duties as contract managers. Further, none of the project managers interviewed were aware of any department-level written procedures regarding the contract process, e.g., when to initiate a request for procurement, how to establish and maintain contract files, how to create and monitor timelines for the life of a contract. As a result, project managers are largely on their own with regard to day-to-day procedural guidance with respect to their contract management duties. This is a repeat finding from our [Leases Audit](#), which noted that department staff assigned to lease contract management lacked the procedural guidance necessary to complete their duties.<sup>3</sup>

Berkeley Library and Parks, Recreation, and Waterfront already use a best practice for monitoring the status of their contracts

We did identify the following best practice during our review. The Berkeley Library and Parks, Recreation, and Waterfront Department both maintain their own fairly simple but effective spreadsheet for use in tracking their various contracts. The spreadsheets include basic contract information such as the vendor names, program managers, and contract expiration dates. The General Services Manager identified this type of tool as something that all departments could benefit from.

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## Recommendations

Create contract preparation timeline graphics

### The Department of Finance should:

- 1.1 Design two timeline graphics to visually display the length of time project managers should expect it to take to execute the average boilerplate contract and non-boiler plate contract (i.e., routine vs. non-routine contracts). Identify the full length of time from request for proposal to City Manager approval. Include the average review times for the departments involved with contract review to provide user departments with a structure for their contract needs planning. Post the timelines to Contracts Online.

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<sup>3</sup> Leases Audit, June 2009: [http://www.cityofberkeley.info/uploadedFiles/Auditor/Level\\_3\\_-\\_General/2009-06-02\\_Item\\_16\\_Leases\\_Audit\\_Conflicting\\_Directives\\_Hinder\\_Contract\\_Oversight.pdf](http://www.cityofberkeley.info/uploadedFiles/Auditor/Level_3_-_General/2009-06-02_Item_16_Leases_Audit_Conflicting_Directives_Hinder_Contract_Oversight.pdf)

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| Develop On Demand report of expiring contracts for project managers to access as needed | 1.2 Continue providing semiannual reports of expiring contracts to project managers and work with the Department of Information Technology to convert the ad hoc query into an On Demand report that identifies all contracts set to expire within six months from the date of the query. Provide project managers with access to the On Demand feature so that they can run the report as needed.  |
| Plan for a true contract management system  | 1.3 In collaboration with the Department of Information Technology and key contract review and approval departments, include contract management in Enterprise Resource Planning (ERP) needs. Work with key personnel in the contract review and approval departments, and with project managers who typically execute and manage a large number of contracts, to identify critical business needs, and methods for eliminating redundancies and streamlining the contract preparation, review, and approval process. |

**The City Manager should:**

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| Enhance City training to include contract planning guidance | 1.4 In coordination with the Department of Finance, enhance City training to include guidance for contract planning as part of project management. Once training is established, obtain feedback from training attendees and modify the training on an ongoing basis to meet the needs of project managers.<br>Example training topics include: <ul style="list-style-type: none"><li>• planning for contract needs by aligning them with department work plans</li><li>• structuring contract preparation needs with citywide approval timelines (also see recommendation 1.1)</li><li>• developing simple contract tracking systems to monitor contract timelines, expirations, and funding needs</li></ul> |
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Establish departmental procedures for contract management; repeat recommendation

- 1.5 Require departments to document their specific procedures for contract preparation, oversight, and management. Procedures should include:
- planning for department specific actions, e.g., obtaining management’s approval
  - tracking contract status and funding needs
  - attending City training courses when offered, e.g., contract preparation and FUND\$ 101
  - describing shared contract management responsibilities between project managers and support staff
  - requiring projects managers to coordinate with and respond to support staff’s needs for contract administration
  - requesting contract extensions
  - aligning contract needs with department work plans
  - using Finance’s contract process timelines and On Demand report of expiring contracts for contract planning (also see recommendations 1.1 and 1.2)
  - minimum level of documentation needed to effectively manage contracts

***City Manager’s Response***

The City Manager agreed with the recommendations. The full response is at Appendix B.

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**FISCAL IMPACT**

**\$80,498 incurred costs for services provided on contracts before they were executed**

The City incurred costs of over \$80,000 for services performed on 15 expenditures contracts before they were executed. This represents a vast improvement over the results of our prior [Citywide Contract Compliance](#) audit. Nevertheless, services performed without an executed contract are by definition unauthorized, and represent work done without the contract covenants in place to protect the City from legal ramifications. General Services’ diligence in securing liability insurance in all instances did mitigate the risk to a certain degree. However, the most effective safeguard is to ensure that all contracts are properly executed before vendor services are authorized.

Reducing contract errors will lead to citywide cost savings

The City could save from \$3,000 to \$9,000 annually by reducing the General Service Manager's time spent on returning contracts to client departments for correction and performing a secondary review to ensure that staff made the necessary corrections. The savings are greater when you include the amount of departmental staff time saved on making those corrections. However, those savings vary from department to department and are not easily quantified. Regardless, it is a significantly better use of City resources when staff do not spend their time making corrections to their work.

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## CONCLUSION

**City staff significantly improved their timeliness in securing executed contracts**

Better tools and guidance needed to help staff with their contract responsibilities

Our review of citywide contracts showed vast improvement in the City's contract execution practices. Of 226 expenditure contracts entered into in fiscal year 2014, all but 15, or 7 percent, were executed timely and in place before services were rendered. The City's significant improvement notwithstanding, management must address long-standing barriers to project management efficiency and effectiveness in order to achieve full compliance. Project managers will be in a better position to timely prepare and execute the large number of contracts the City enters into annually if City management provides:

- More robust training and procedural guidance for staff assigned as contract project managers and support staff.
- Better tools for contract planning and monitoring.
- A true contract management system that automates and streamlines the contract preparation, review, and approval process.

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**Staff citywide assisted in making this audit a success; thank you**

We would like to thank all City departments for their continued cooperation during this audit. Staff's prompt and thoughtful responses to our inquiries allowed us to gain a more complete understanding of the challenges they face in performing their contract related work. We appreciate management's receptiveness to our findings and recommendations, and their willingness to make improvements to ensure City contracts are executed before contractors begin work to limit the City's risk exposure.

## **APPENDIX A:**

### **Scope and Methodology**

We audited new City expenditure contracts executed during fiscal year 2014, excluding emergency and community agency contracts. We focused on determining if there were contracts where contract work had started before the contract was signed by the City Manager. We did this by identifying contracts where there was an invoice dated prior to contract execution. When we found this had occurred, we reviewed contracts and project manager files, and met with project managers, to identify the root causes. We asked the project managers and support staff who oversee these contracts, as well as the City Attorney's Office, to identify the significant risks to the City, if any, resulting from this practice. To gain an understanding of City contract requirements, we reviewed City policies and procedures for contract oversight and management, including Contracts Online; obtained information from City departments about their specific contract practices; and met with staff responsible for contract administration, accounts payable processing, and information systems management. We also reviewed best practices for contract management to identify possible improvement techniques for project managers.

#### *Data Reliability*

We assessed the reliability of Records Online data and Purchase Inventory Module (PI) data by reviewing them for completeness. We relied on the actual contracts and invoices for specific contract and invoice information, so we did not test contract and invoice information in these databases for accuracy. We used Records Online data to identify all the contracts executed during fiscal year 2014. Our testing of this database determined that the Records Online query resulted in an incomplete list of fiscal year 2014 contracts due to a software glitch with the Records Online query. However, because contracts are assigned contract numbers in sequential order, we were able to identify the missing contract numbers and used the query function in Records Online to search the database, one by one for the missing contracts. We identified all but a very small number. For these few, we used Contract Cards on file in our office to identify needed contract information.

We assessed the completeness of the PI data by comparing it with data in Records Online. We determined that the contract number and purchase order information was very complete, but not 100 percent complete. Of 226 expenditure contracts Records Online identified as executed during fiscal year 2014, eight were not recorded in Purchase Inventory. Using other means, we were able to identify the purchase orders in Purchase Inventory for four of the eight contracts and added them to the PI data we had. This meant that, after adjustments, the PI data identified 98 percent of the fiscal year 2014 contracts. We determined that the small difference would not affect our audit findings and conclusions.

### *Auditor Independence*

We identified possible threats to our independence regarding our involvement with the Contract Management System (CMS), and our contract registration and cosigning procedures. Prior to starting audit work, we assessed these threats and put safeguards in place to eliminate any actual or perceived threat. By City mandate, the City Auditor countersigns City contracts and our office registers the agreements. Our office also serves as a CMS module leader. As module leader, assigned audit staff have higher user rights than other City users, including the ability to add, change, and delete contract data. To ensure our independence, we did not rely on CMS data to support our audit findings and conclusions; and we did not assign audit staff responsible for our contract registration services to this audit. Because the City Auditor signs contracts after City staff complete contract execution, we did not consider her involvement as a contract cosigner a threat to our independence for reviewing work performed by City staff prior to submitting contracts to our office.

### *Standards Compliance Statement*

We conducted this performance 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 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 objective.

## APPENDIX B

### Audit Finding, Recommendations, and Management Response Summary

<b>Audit Title: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance</b>				
<b>Findings and Recommendations</b>	<b>Lead Dept.</b>	<b>Agree, Partially Agree, or Do Not Agree and Corrective Action Plan</b>	<b>Expected or Actual Implementation Date</b>	<b>Status of Outstanding Audit Recommendations and Implementation Progress Summary</b>
<b>Finding 1: The City vastly improved its performance in securing fully executed agreements before contract work commences, but barriers to full compliance must be addressed</b>				
1.1	Design two timeline graphics to visually display the length of time project managers should expect it to take to execute the average boilerplate contract and non-boilerplate contract (i.e., routine vs. non-routine contracts). Identify the full length of time from request for proposal to City Manager approval. Include the average review times for the departments involved with contract review to provide user departments with a structure for their contract needs planning. Post the timelines to Contracts Online.	Finance	<b>Agree</b>  Finance will create timeline graphic for a typical boilerplate. Non-boilerplate contracts are situational and highly unpredictable, oftentimes involving discussions and negotiations between the City Attorney’s office and outside counsel. Therefore, for non-boiler plate contracts, we will include information with the regular timeline that contract project managers should plan for extended preparation time, e.g., two months longer than the norm.	March 2016

<b>Audit Title: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance</b>					
<b>Findings and Recommendations</b>		<b>Lead Dept.</b>	<b>Agree, Partially Agree, or Do Not Agree and Corrective Action Plan</b>	<b>Expected or Actual Implementation Date</b>	<b>Status of Outstanding Audit Recommendations and Implementation Progress Summary</b>
1.2	Continue providing semiannual reports of expiring contracts to project managers and work with the Department of Information Technology to convert the ad hoc query into an On Demand report that identifies all contracts set to expire within six months from the date of the query. Provide project managers with access to the On Demand feature so that they can run the report as needed.	Finance	<p><b>Partially agree</b></p> <p>IT will design and complete an On-Demand query. The departments will have access to <u>run the OD query at will</u>. This will enhance, reinforce, and encourage the department’s active management of their respective contracts.</p> <p>Finance will supplement dissemination of contracts’ status on a biannual basis (prior to FY-end close and CY-end close) with a city-wide notification report.</p>	September 2015	
1.3	In collaboration with the Department of Information Technology and key contract review and approval departments, include contract management in Enterprise Resource Planning (ERP) needs. Work with key personnel in the contract review and approval departments, and with project managers who typically execute and	Finance	<p><b>Agree</b></p> <p>Inclusion of a modern contract management system in an ERP is highly desirable. We will work with Information Technology to include a contract management system in Enterprise Resource Planning and work with key personnel to identify the critical business needs for such a system. Actual purchase</p>	Unknown	

<b>Audit Title: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance</b>					
<b>Findings and Recommendations</b>		<b>Lead Dept.</b>	<b>Agree, Partially Agree, or Do Not Agree and Corrective Action Plan</b>	<b>Expected or Actual Implementation Date</b>	<b>Status of Outstanding Audit Recommendations and Implementation Progress Summary</b>
	manage a large number of contracts, to identify critical business needs, and methods for eliminating redundancies and streamlining the contract preparation, review, and approval process.		will depend on funding availability and consideration of other information system needs with a higher priority.		
1.4	In coordination with the Department of Finance, enhance City training to include guidance for contract planning as part of project management. Once training is established, obtain feedback from training attendees and modify the training on an ongoing basis to meet the needs of project managers. Example training topics include: <ul style="list-style-type: none"> <li>planning for contract needs by aligning them with department work plans</li> </ul>	City Manager's Office	<b>Agree</b> The City's training program will be enhanced to include better contract planning as part of project and time management. As is standard with any City training, feedback from attendees will be used to continually improve the City's training program.	2016	

<b>Audit Title: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance</b>					
<b>Findings and Recommendations</b>		<b>Lead Dept.</b>	<b>Agree, Partially Agree, or Do Not Agree and Corrective Action Plan</b>	<b>Expected or Actual Implementation Date</b>	<b>Status of Outstanding Audit Recommendations and Implementation Progress Summary</b>
	<ul style="list-style-type: none"> <li>structuring contract preparation needs with citywide approval timelines (also see recommendation 1.1)</li> <li>developing simple contract tracking systems to monitor contract timelines, expirations, and funding needs</li> </ul>				
1.5	<p>Require departments to document their specific procedures for contract preparation, oversight, and management. Procedures should include:</p> <ul style="list-style-type: none"> <li>planning for department specific actions, e.g., obtaining management’s approval</li> <li>tracking contract status and funding needs</li> <li>attending City training courses when offered, e.g., contract preparation and FUND\$ 101</li> <li>describing shared contract</li> </ul>	City Manager’s Office	<b>Agree</b>	December 2015	

<b>Audit Title: Most Contracts Executed Timely but Contract Project Managers Could Use Better Tools and Guidance</b>				
<b>Findings and Recommendations</b>	<b>Lead Dept.</b>	<b>Agree, Partially Agree, or Do Not Agree and Corrective Action Plan</b>	<b>Expected or Actual Implementation Date</b>	<b>Status of Outstanding Audit Recommendations and Implementation Progress Summary</b>
<p>management responsibilities between project managers and support staff</p> <ul style="list-style-type: none"> <li>• requiring projects managers to coordinate with and respond to support staff’s needs for contract administration</li> <li>• requesting contract extensions</li> <li>• aligning contract needs with department work plans</li> <li>• using Finance’s contract process timelines and On Demand report of expiring contracts for contract planning (also see recommendations 1.1 and 1.2)</li> <li>• minimum level of documentation needed to effectively manage contracts</li> </ul>				