



Office of the City Auditor

CONSENT CALENDAR
May 18, 2004

To: Honorable Mayor and
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: Citywide Contract Compliance Audit

RECOMMENDATION

That Council request the City Manager to report back in January 2005 on the implementation status of each of the Auditor's recommendations in the attached report, and every six months thereafter, until all recommendations have been implemented.

SUMMARY

A Citywide Contract Compliance Audit was performed with the objectives of determining whether departments were in compliance with the City's competitive solicitation policies, determining the frequency of contract services being performed prior to contract execution, and determining whether contracts were executed or amended after the expiration of the contract. This audit was scheduled to be performed as part of the fiscal year 2004 audit plan.

Our audit sample identified several areas of weakness in contract processing by project managers, including lack of evidence of competitive solicitation and bidding in the contract packages, work starting prior to contract execution, executing and amending expired contracts, and use of vouchers and purchase orders to circumvent controls over contract spending limits. Additional concerns include inaccurate and incomplete information in the Contract Management System, and lack of maintenance cost consideration beyond the first year.

The audit report includes 7 audit findings and 18 recommendations.

FISCAL IMPACTS OF RECOMMENDATION

Care was taken to make audit recommendations that appeared to be cost effective to implement. However, Finance has responded that one audit recommendation may not be cost effective and a second may not be implemented due to current lack of resources. The City Manager will report back on the implementation status in January 2005 and again in fiscal year 2006 after further study.

CURRENT SITUATION AND ITS EFFECTS

The auditors did not determine the full range of reasons for all incidences of noncompliance. Concerns with the timely provision of service were noted, as was apparent lack of knowledge of City requirements. While the internal controls over contract execution, particularly in areas of competitive solicitation, are designed to minimize risk of employee fraud, there was no evidence

that controls were bypassed for reasons of personal gain. Our recommendations, which include developing a focus group to determine ways to expedite contract execution and amendments, confirming authority of the General Services Manager over purchasing concerns, and issuing City Manager memos reiterating the City's solicitation and bidding policies, provide for both improving internal controls and informing staff of procedural requirements.

A comprehensive memo on the subject of contract compliance was issued to the Department Directors by the City Manager on April 12, 2004.

RATIONALE FOR RECOMMENDATIONS

It is an accepted practice that the cost of a control should not exceed the benefit of the control. We believe that implementation of these recommendations will assist in strengthening controls, but may also result in more efficient procedures

CONTACT PERSON

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Approved:

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