



LAURA DOUD

Long Beach City Auditor's Office

Contract Administration Audit Limited Scope Review Report 3 of 10

ABM Onsite Services-West, Inc.

February 11, 2016

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Executive Summary

This is Report 3 of 10 in a series of limited scope audits of City contracts.

This report includes the results of a limited scope audit of contract 33516 between the City of Long Beach (City) and ABM Onsite Services-West, Inc. (ABM). It is the third of ten contract audits reporting on the adequacy of the City's monitoring procedures and internal controls over the administration of contracts. A summary report that compiles the results of the ten individual contract audits will be issued separately.

In September 2014, the City entered into a two-year citywide contract of approximately \$1.01 million annually with ABM. The contract provides custodial services to nine City departments and more than 75 buildings, including the main library and branches, park restrooms, a senior center, various Public Works facilities and a Police substation. Each building has agreed-upon work specifications that establish the frequency and level of service to be performed. Oversight of the contract is performed by eleven designated Contract Administrators.

Summary of Results
Lacking central coordination, a citywide contract with multiple administrators is more challenging to manage and contributes to inconsistent oversight methods.

There is no central coordination among the eleven Contract Administrators. Instead, each Contract Administrator is left to develop his or her own monitoring practices and processes. This has led to inconsistent oversight and resulted in knowingly paying incorrect invoices as well as potentially paying for services that were not performed.

Our audit found the majority of Contract Administrators only observe services and do not maintain sufficient records to support the completion of work or assess the quality of ABM's performance. In addition, billing issues were handled in different ways, including paying all invoices in full even when they were incorrect and then waiting months for the Contractor to issue an adjustment to subsequent billings.

We also noted variances between contract pricing and the City Council approval, which created the possibility for expenditures to exceed negotiated contract amounts. This is compounded by inconsistent department allocations on the Purchase Order (PO), which resulted in "reserve" funds being held in an account of a defunct department.

Central coordination of citywide contracts administered by multiple departments would provide more assurance that contract issues were handled consistently and that over \$1 million of services were adequately delivered. In addition, the City should develop contract administration training for all employees charged with oversight. This would include the development of policies and procedures to provide standardized guidance and direction.

We want to thank the departments' staff for their assistance, patience and cooperation during this audit.

Results & Recommendations

Not all services required in the scope-of-work are verified.

A citywide contract with ABM Onsite Services-West, Inc. (ABM or Contractor) was executed in September 2014 to provide custodial service at a cost of over \$1 million to various city facilities, including office space, libraries, park restrooms, a senior center and several public works offices. Procurement of the contract was facilitated by the Purchasing Division of the Financial Management Department (Purchasing), while contract oversight is managed by eleven designated Contract Administrators, on behalf of the City.

The services provided at each location were established by department management and are set out in separate scopes-of-work for each building or building group, based on operational need. For example, the frequency of cleaning services required at libraries or offices that are open to the public can depend on each location's hours of operation, while a facility that operates 24/7, such as a Police substation, may require additional consideration to ensure the health and safety of the public and employees.

While Purchasing facilitates the bidding and formation of the contract, development of processes for overseeing the contract are left to each Contract Administrator. There is little to no coordination between the Contract Administrators nor is there a central coordinator to ensure contract implementation and oversight are handled consistently. This has resulted in different approaches on issues such as verification of services and billing resolution.

Centralizing coordination of a citywide contract such as this would provide consistent procedures and processes, routine reporting, increased communication and payment monitoring, which would improve the effectiveness of the City's contract oversight responsibilities.

Finding 1. The City may be paying for services never performed due to inconsistency in oversight.

The level of cleaning services required at each location in the contract may vary, but the process for verifying the performance of the services should be fairly consistent. Our audit found that verification of services by all Contract Administrators was insufficient due to limited Contractor reporting requirements, documentation of performance not retained, and in some cases, the Contract Administrator's unfamiliarity with required services. This resulted in the City potentially paying for services that were never rendered.

- A. There are no standard processes or forms for monitoring the work. More than half (55%), or 6 of 11 Contract Administrators, do not require the custodial staff to sign-in or check-in. Even those locations requiring check-in with building staff do not retain records sufficient to indicate all services were performed by ABM.
- B. All Contract Administrators primarily verify the Contractor's work by observation. The Contract Administrators assume the work is performed because certain base tasks appear to be done. However, there is no record of completion, assessment of performance quality or assurance that all services in the contract were performed.

- C. Three Contract Administrators were not fully aware of the specific tasks to be performed by ABM. Lacking such understanding, they cannot verify whether all of the work has been completed.

Recommendations:

- 1.1 **Citywide contracts tend to be for high dollar amounts, such as this contract with ABM that totals over \$1 million. The City needs to employ a centralized process to ensure consistency in how the contracts are implemented and monitored. We recommend providing one area in the City, such as Purchasing within the Department of Financial Management, with the resources necessary to be responsible for providing centralized coordination of citywide contracts that are administered by more than one department.**
- 1.2 **Develop standard policies, procedures and documentation to ensure services outlined in the contract are adequately verified by monitoring the Contractor's time worked and tasks performed.**
- 1.3 **Develop routine reporting requirements between the individual Contract Administrators and the central contract coordinator to ensure potential issues are shared among all Contract Administrators.**
- 1.4 **All Contract Administrators should receive adequate training on this contract to understand their responsibilities and the scope-of-services to be performed by the Contractor.**

Finding 2. Instead of correcting invoice errors before making payment, the City chose to wait for refunds from the Contractor, which at times took up to nine months.

The City is knowingly paying incorrect invoices and then spending valuable staff time monitoring the account to obtain refunds or adjustments. There is no incentive for the Contractor to process the adjustments timely, resulting in not only lost staff time to monitor, but lost interest on incorrect amounts paid. Our audit found almost \$15,000 in delayed billing adjustments during the audit period. Examples include:

- Library Services (Library) was incorrectly billed for days that the libraries were not open, such as Mondays and holidays. ABM took an average of four months to apply adjustments of approximately \$10,700. However, ABM continues to incorrectly bill the Library for closures, despite repeatedly being notified in advance of the library closures.
- The Environmental Services Bureau paid invoices that included incorrect rates. The adjustment of about \$2,900 took over 90 days to be applied.
- The Fire Department paid invoices that incorrectly billed the number of custodial hours worked. The adjustment of about \$1,000 took over 90 days to be applied.
- The Police Department's East Division Substation (Police) has had issues with inconsistent performance by custodial staff and complaints of unsatisfactory work remain unresolved, but Police continues to pay the full invoice amounts.

Without centralized coordination of this contract, complaints, including billing issues, are addressed inconsistently with some choosing to deal directly with the Contractor, while others turn to Purchasing for assistance. As a result, not all Contract Administrators are aware of the potential Contractor problems, which contributes to inconsistent handling.

Recommendations:

- 2.1 Standardize invoice review and payment processes to ensure work that is billed has been verified, that the Contractor is billing in a consistent fashion, and invoice discrepancies are resolved prior to City making payment.
- 2.2 Standardize and coordinate complaints and resolution processes. Ensure contract problems that could be applicable to other locations are properly communicated.

Finding 3. The contract purchase order differs from City Council authority and the contract price.

Purchasing is responsible for presenting the contract to the City Council (Council) for approval and setting up the purchase order (PO) to allow departments to process payments. Our audit found a variety of inconsistencies in the documents surrounding the process due to limited controls and minimal oversight. As a result, there was no audit trail discussing pricing changes, how funds were allocated, or why funds were allocated to inactive departments. Monitoring of the PO is haphazard and only seems to occur when an issue arises.

- A. Contract pricing does not agree with amount approved by Council.

The amount of the contract reported to Council for Year One does not agree with the authorized contract. The Council approved a total of \$916,125 that is actually the amount noted as Year Two pricing in the contract. Purchasing stated they did not want to provide multiple years of pricing in the Council report, so only the highest year was presented. However, when the corresponding PO for Year One was established, Purchasing used Year Two pricing, which allowed for the potential of an additional \$20,357 to be spent above Year One contract price.

Table 1
Price Comparison, Year One

Contract Price	Amount Approved by Council	Purchase Order Amount	Additional Spending Authority
\$895,768	\$916,125	\$916,125	\$20,357

- B. PO allocations do not agree with the contract price.

The spending limits for each department are detailed in the contract, but were not used when setting up department allocations on the PO. Instead, the amount of spending authority that is assigned to each department appears to be at the sole discretion of the Purchasing Agent. There is no supervisory review of this process or documentation supporting the allocation amounts. Unfortunately, monitoring of the PO activity by Purchasing is not consistent and only seems to occur if a problem arises.

- The contract includes the allocation of expected costs per department. However, Purchasing did not use these amounts when establishing the PO. Instead, Purchasing stated allocations per department were based on prior payment history and department requests, but Purchasing maintained no documentation to support that methodology. We reviewed payment history over the past six years and found there was no consistent correlation with payments and the allocation for Year One of the PO.¹

¹ The City's accounting system for maintaining PO information does not provide a report that easily identifies changes in line-item allocation. Our review for Year One was based on the PO allocation as of June 15, 2015.

- On December 2, 2015, we reviewed the PO allocation per department for Year Two and found it to be incomplete, even though the City was already in the second month of the contract year. Only a few departments had minimal allocations with the rest of the balance allocated to an inactive department as a placeholder. Purchasing stated the allocations were still being processed, however, there was no documentation supporting how the pending allocations to departments were calculated.
- When disbursing the spending authority on the PO, Purchasing is allocating funds to a defunct department, Oil Properties. Purchasing states these funds are a reserve to be used when departments exceed their spending authority. For Year One, close to \$42,000 was allocated to the defunct department. For Year Two, over \$486,000 or 53%, of the total contract was allocated to the defunct department.

Purchasing has previously stated they are not responsible for overseeing this contract and do not consistently monitor activities surrounding the services and payment. Therefore, it is not clear why Purchasing is controlling the PO allocation instead of using the amounts already established in the contract. Allocations, either from the contract or another documented method, should be assigned to the departments that are authorized in the contract, and the departments should be held responsible for managing their allocations and justifying any overages.

C. Payments were made to the Contractor outside of the established PO.

Originally, services related to the public safety dispatch center were assigned to the Fire Department. During the term of the contract, the dispatch center was transferred to the Disaster Preparedness & Emergency Communications Department (ECOC). The PO allocation was not adjusted to account for the restructuring, and the ECOC paid the Contractor \$39,984 outside of the PO during Year One. Purchasing was unaware of this situation when it was brought to their attention. The PO serves as the control to ensure payments do not exceed contract amounts. Payments made outside of the PO can result in the authorized contract amount being exceeded.

D. There are no guidelines for use of contingency funds.

When Purchasing presented the contract to Council for approval, they requested a 10% contingency be added. The contingency was not included in the contract language or the PO. According to Purchasing, the contingency funds can be added to the PO and disbursed as needed. There is no established criteria to determine when the contingency can be used.

A contingency is normally activated when there is a change in scope of the services provided. For example, under this contract that might be a change in location or an emergency situation. A contingency should not be used as an extension of the same scope-of-services. If the City believed a “reserve” for these as-needed services was required to meet operational needs, then this amount should have been included in the base contract price.

Recommendations:

- 3.1 **When requesting contract authority from the City Council, pricing should mirror the contract. Changes in prices over the term of the contract should be thoroughly explained to provide clarity on the total contract price.**
- 3.2 **PO spending authority by department should match the contract. Any changes to allocations should be thoroughly documented.**
- 3.3 **Annual department allocations of spending authority for this contract should be established at the beginning of the contract year with departments responsible for managing their allocations. Changes in allocations during the contract year should be adequately justified and documented.**

- 3.4 The City should establish a method of programming “reserves” on POs without charging the amount to a defunct department.
- 3.5 Contingencies that allow for increased spending above the contract amount should be properly defined as to when and how the money may be used. It should not be used as an extension of the same scope-of-services.
- 3.6 As part of Recommendation 1.1 above, monitoring of the PO should be centralized and consistent, with the coordinating department ensuring that payments related to the contract are all processed through the corresponding PO.

Finding 4. The City has not provided resources, guidance and training on how to effectively manage contracts.

As noted in the prior findings, there is a need to provide central coordination on citywide contracts to ensure monitoring is consistent between departments. However, we also noted that the City, as a whole, does not provide any training or guidance on administering contracts. Contract administration requires specific project management skill sets to ensure contract terms and conditions, deliverables and proper documentation have been met. Without providing standardized training, policies and procedures that employees can reference, the City is putting millions of dollars at risk when contracted services are not properly delivered.

Recommendation:

- 4.1 Develop a citywide training program on contract administration best practices to reinforce the need for consistency between departments in contract oversight.
- 4.2 Establish policies and procedures for overseeing contracts citywide.

Background

The City has been contracting custodial services with the private sector for 17 years.

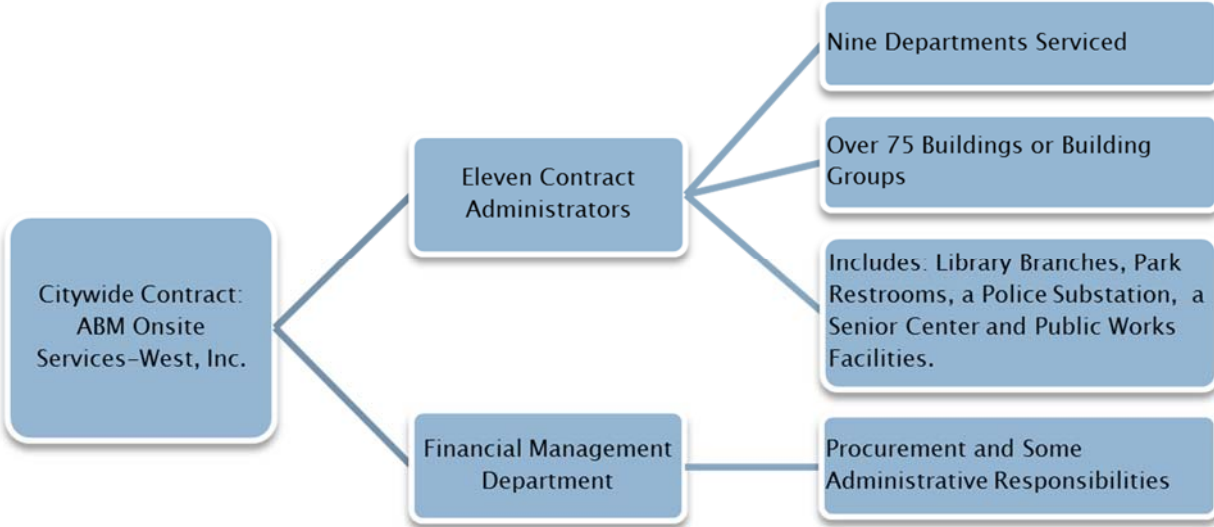
Since 1998, the City of Long Beach (City) has contracted commercial cleaning services for City facilities, buildings and offices that are not maintained by City staff. In addition to emptying trash receptacles, vacuuming floors and sanitizing restrooms, these janitorial services include the green cleaning of carpets, blinds and windows, supply management, and other specialized services.

The City issued an Invitation to Bid (ITB) in April 2014, which included outreach to bidders specializing in custodial services, as well as local, minority and women-based business groups. The ITB competitive process awards the contract based on the lowest responsible bid, or to the bidder with the best price and reputation.

Contract

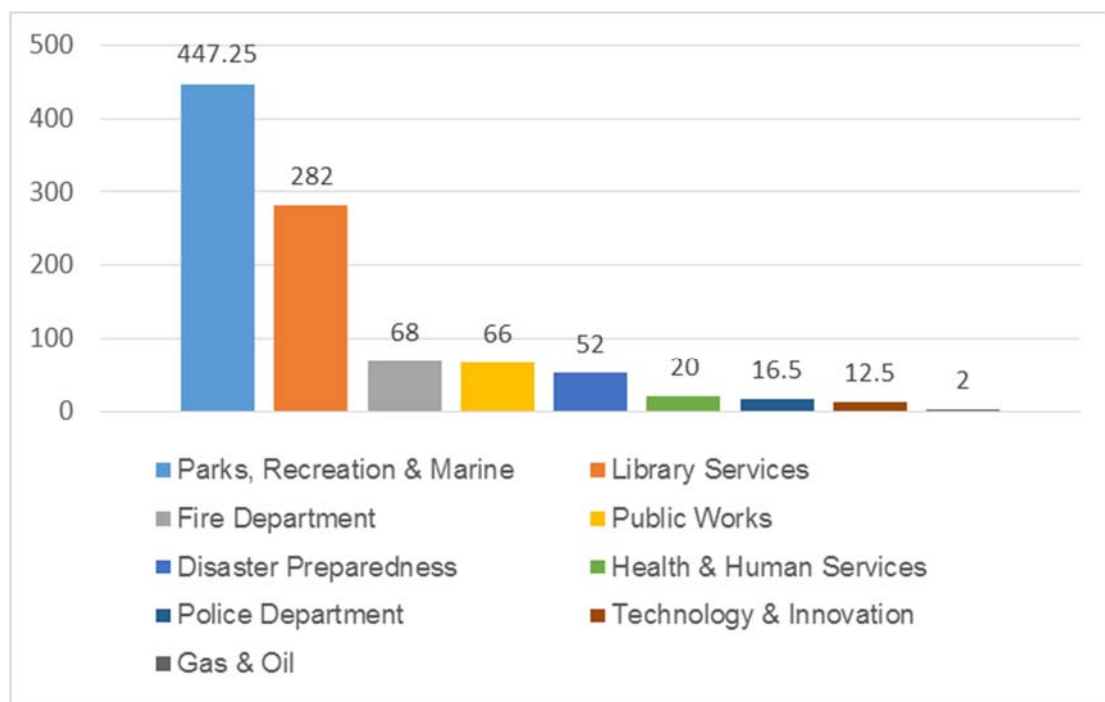
In September 2014, the City entered into a custodial services contract with ABM Onsite Services-West, Inc. (ABM or Contractor). The contract amount is not to exceed approximately \$1.01 million annually, and the term is two years with two one-year renewal options. As shown in Figure 1, the single citywide contract serves multiple City facilities consisting of a single building or building groups, in nine departments. There are over 75 locations in all, including the main library and branches, park restrooms, a senior center, various Public Works facilities and a Police substation.

Figure 1
Contract Oversight Structure



Each building group has agreed-upon work specifications, including the level of service to be performed (level 1 or 2 for basic or enhanced), number of custodial staff hours to perform the work, and frequency of services. Figure 2 shows the number of weekly service hours by department, based upon the contract scopes-of-work.

Figure 2
Weekly Custodial Hours by Department
 (Building or Building Group)



Contract Monitoring
The City is responsible for managing the contract to ensure the Contractor completes the required scope-of-services with quality.

ABM is one of the largest facility management service providers in the U.S., with approximately \$5 billion in revenues and over 100,000 employees who provide services in fields such as clinical engineering, home energy solutions, parking, transportation and security in over 15 countries. They have over 70 years of experience working with local governments such as the cities of Atlanta, Newport Beach, Oakland and Beverly Hills.

After entering into a contractual obligation, the City is responsible for monitoring the Contractor's performance and compliance with contract terms and conditions. The City has designated eleven Contract Administrators to oversee the contract – about one for each building or building group. Appendix A provides additional information related to contract administration, including best practices and components of effective contract monitoring.

Objective, Scope & Methodology

This audit assesses whether the Department employed sound contract monitoring procedures to ensure the Contractor complied with key terms & provisions.

The objectives for this audit were to evaluate the adequacy of the City's monitoring procedures and internal controls over the contract administration, examine related payments and to review the Contractor's compliance with key contract provisions. The audit scope was the first year (September 2014 to September 2015) of the two-year period of this contract.

We reviewed the contract's terms and conditions along with related records, including procurement documents, legislative text, contract amendments, purchase orders and change orders. We also reviewed regulatory criteria including the City Charter Article 1800, *Contracts*; and the City's Procurement Policy and Purchasing Guidelines. In addition, we used best practices and principles in public procurement and contract monitoring to evaluate the adequacy of the City's oversight responsibilities.²

To perform the work we conducted the following procedures:

- I. Procurement Method – Reviewed the method used to purchase the contract, including competitive bid documents where applicable and the executed contract to determine whether the contract and accompanying purchase order complies with the City's purchasing guidelines. We also verified that the contract was properly approved by the City Council.
- II. Risk Assessment & Control Environment – Performed a review of contract-related data to assess the contract risk. Interviewed department employees to gain an understanding of the activities they perform in managing the contract and monitoring the Contractor's performance, as well as to assess the internal control environment. We also verified the Contractor's compliance with key contract terms and conditions.
- III. Payment Processing – Compared Contractor payments to the original invoices and supporting records where available to verify accuracy, appropriateness and proper approval. We also evaluated the timeliness of payment processing.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), which 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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

² *Principle and Practices of Public Procurement*, Sept. 2013, by The National Institute of Government Purchasing, Inc. and The Chartered Institute for Purchasing and Supply; and *Components of an Effective Contract Monitoring System*, July 2003, by the State of Georgia Department of Audits and Accounts Performance Audit Operations Division.

Appendix

In its simplest terms, contract monitoring provides the City with assurance that it is receiving the services or goods for which it has paid. But taken further, active contract monitoring mitigates risk, with risk defined as the probability of an event or action having an adverse effect on the City.³ Proper oversight and monitoring creates a strong control environment that can deter fraud, waste and abuse. As shown in Figure 3, components of an effective contract monitoring system include an ethical tone that starts at the top of the organization, ongoing monitoring, and thorough recordkeeping.

Figure 3
Best Practices in Contract Management

TONE AT THE TOP	
<p>I. Establish a consistent, high quality contract monitoring & compliance system across the organization.</p> <p>II. Written policies should be published, communicated, and implemented.</p>	<p>III. Provide training in contract compliance & monitoring to those with the responsibility for contract oversight.</p> <p>IV. Limit contract risk by requiring disclosure of conflicts of interest.</p>
CLOSE OVERSIGHT and GOOD ADMINISTRATION	
<p>V. The contract scope-of-work (SOW) often is the City's primary means of communicating these expectations. Ensure the SOW includes:</p> <ul style="list-style-type: none"> • Clear expectations & deliverables that are defined and specific. • A plan that considers all significant issues that may affect the success of the project, • A contingency plan to address how the agency would respond in the event of an interruption of service delivery. • A dispute resolution procedure that requires timely resolution. <p>VI. Use standard project schedules to document project progress, responsibilities, timing, and problems.</p> <ul style="list-style-type: none"> • Hold regular meetings to discuss the information in the schedule and agreement on changes. Agree to the frequency of updates. <p>VII. Perform onsite monitoring to ensure the contractor's compliance.</p> <ul style="list-style-type: none"> • Visits can verify actual performance against scheduled or reported performance and ensure the contractor is dedicating sufficient resources and appropriate personnel. 	<p>VIII. Evaluate the contractor's performance and provide feedback.</p> <ul style="list-style-type: none"> • Focus on outputs and outcomes that assess some aspect of the effect, result, or quality of the service. <p>IX. Contract files are organized and complete. Records are critical should any contract dispute occur. Items to include:</p> <ul style="list-style-type: none"> • Method of evaluation and award. Maintain a copy of the contract, modifications, and amendments; as well as insurance records. • All contract activities, including meetings, communications, issues, and agreed-upon changes or resolution. <p>X. Contractor invoices are accurate, complete & sufficiently supported. Records regarding any change to payment schedules, pricing, or timing should be maintained.</p> <p>XI. Payments are linked to satisfactory performance, properly reviewed, and approved.</p>

³ *Components of an Effective Contract Monitoring System*, July 2003, by the State of Georgia Department of Audits and Accounts Performance Audit Operations Division.

Management Comments


Management's response begins on the following page.




City of Long Beach
Working Together to Serve

Memorandum

Date: February 10, 2016

To: Patrick H. West, City Manager 

From: John Gross, Director of Financial Management 

For: Laura Doud, City Auditor

Subject: **Contract Administration Audit – ABM Onsite Services – West Inc.**

Thank you for the opportunity to comment on the draft audit of the Contract Administration Audit for ABM Onsite Services-West.

Management agrees or partially agrees with all findings. However, in order to comply with the instructions we received from the City Auditor's Office, we were required to mark some of the recommendations as "disagree." According to our understanding of the instructions, if the administration believes that there is no follow-up action required, the administration must mark "disagree" for that particular recommendation, even though we may generally agree with much of the specific recommendation and comments. For those recommendations where the administration has partial agreement, Management's primary concern is the cost of additional controls. In those cases, particularly because of the tight budget situation, Management's proposed or current controls are intended to provide an appropriate balance of resources for operations and control.

In addition, we intend that the new ERP project and the associated update of procedures and policies will make significant improvements in the areas identified.

Again, management appreciates the City Auditor's diligence in performing the Contract Administration Audit for ABM Onsite Services-West and appreciates the opportunity to comment.

JG BUREAU MANAGER:SECRETARY
K:\EXEC\JOHN GROSS\TFF RE FM AUDIT RESPONSE ABM CONTACT ADMINISTRATION FINAL

ATTACHMENT: MANAGEMENT RESPONSE ACTION PLAN

CC: PATRICK WEST, CITY MANAGER
TOM MODICA, ASSISTANT CITY MANAGER
ARTURO SANCHEZ, DEPUTY CITY MANAGER
REBECCA JIMENEZ, ASSISTANT TO THE CITY MANAGER

MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: ABM Onsite Services - West, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Citywide contracts tend to be for high dollar amounts, such as this contract with ABM that totals over \$1 million dollars. The City needs to employ a centralized process to ensure consistency in how the contracts are implemented and monitored. We recommend providing one area in the City, such as Purchasing within the Department of Financial Management, with the resources necessary to be responsible for providing centralized coordination of citywide contracts that are administered by more than one department.	H	3	Agree	Purchasing Division /FM	The Purchasing Division intends to develop an improved BPO contract management framework for on-site administrators to track exception based contract performance that would be reported to a simple centralized reporting system for monitoring and issue identification. It is envisioned that this system would be an on line system that would include the maintenance of records from all locations in a centralized electronic database. Some of this functionality may be incorporated into the citywide ERP solution during implementation or post-implementation. TI support is expected to be needed to assist and the improvements described above are subject to technical support availability. A significant component in the design of this and other control systems is the level of available resources. The approach described above is a reasonable approach to these controls that addresses the most important issues while taking into account the City's difficult budget environment.	12/31/2016 (ERP solution is approx. 2018)
1.2	Develop standard policies, procedures and documentation to ensure services outlined in the contract are adequately verified by monitoring the Contractor's time worked and tasks performed.	H	3	Agree	Purchasing Division /FM	The action plan for this item is included in the plan outlined in 1.1	12/31/2016 (ERP solution is approx. 2018)
1.3	Develop routine reporting requirements between the individual Contract Administrators and the central contract coordinator to ensure potential issues are shared among all Contract Administrators.	M	3	Agree	Purchasing Division /FM	The action plan for this item is included in the plan outlined in 1.1	12/31/2016 (ERP solution is approx. 2018)
1.4	All Contract Administrators should receive adequate training on this contract to understand their responsibilities and the scope of services to be performed by the Contractor.	H	3	Agree	Purchasing Division /FM	The action plan for this item is included in the plan outlined in 1.1	12/31/2016 (ERP solution is approx. 2018)
2.1	Standardize invoice review and payment processes to ensure work that is billed has been verified, that the Contractor is billing in a consistent fashion and invoice discrepancies are resolved prior to City making payment.	M	4	Agree	Purchasing Division /FM	Purchasing staff will work with Accounts Payable staff to review and potentially improve on the basic framework for review of the decentralized bill pay process and identify any efficiencies to better ensure timely payment and credit processing. The framework will likely continue to have Departments be the first point of contact for any issues or disputes with Purchasing services as the final point for resolution.	12/31/2016
2.2	Standardize and coordinate complaints and resolution processes. Ensure contract problems that could be applicable to other locations are properly communicated.	M	4	Agree	Purchasing Division /FM	In the framework discussed in 1.1, there is expected to be a process to document and share issues to better communicate issues across the enterprise	12/31/2016 (ERP solution is approx. 2018)

MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: ABM Onsite Services - West, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
3.1	When requesting contract authority from the City Council, pricing should mirror the contract. Changes in prices over the term of the contract should be thoroughly explained to provide clarity on the total contract price.	H	5	Agree	Purchasing Division /FM	We agree with that the contract authority should mirror the contract and that the Council Letter should mirror the contract. Although the past practice was intended to simplify and was not a significant control issue for BPO type contracts, the recommendation is an improvement and we concur with the recommendations	Immediate
3.2	PO spending authority by department should match the contract. Any changes to allocations should be thoroughly documented.	H	5	Disagree	Purchasing Division /FM	We <u>agree</u> with the general intent of this recommendation that for a typical PO, the spending authority provided by a PO should match the contract. This process is IN PLACE. However, a BPO is an exception and we believe controls are enhanced by deviating from the normal process. For a BPO, the total of department BPO amounts may be <u>less</u> than the contract amount, since for a BPO the level of services or goods to be purchased is only intended to be an estimate. The Purchasing Department, for control reasons, typically initially withholds allocation of some of the Council approved purchasing authority. This allows departments to be allocated some additional purchasing authority later on in the year should a department's operational needs require it. Because a departmental shortfall in this type of allocation is not indicative of a budget or management problem, it does not need to be closely tracked or managed. It is recognized that total expenditures by department are useful to get better estimates of future blanket contract amounts and the new ERP system should help track this. A reallocation of BPO authority (as distinguished from a PO) to departments does not need to be documented as to the reason since it would serve no practical purpose. The reason would typically be: "Department usage was above the initial rough estimate." If there is a substantive variation in usage, it is an operational question (but not necessarily and not usually a problem), that would be addressed by the operating department. It is not a question that is efficient or effective to manage through a BPO contract or BPO central management process.	

MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: ABM Onsite Services - West, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
3.3	Annual department allocations of spending authority for this contract should be established at the beginning of the contract year with departments responsible for managing their allocations. Changes in allocations during the contract year should be adequately justified and documented.	H	5	Disagree	Purchasing Division /FM	We <u>agree</u> with the general intent of this recommendation that Department allocations should be established and they are when the BPO is released. This is done using the best information available and this process is IN PLACE. A holding account is maintained by Purchasing for any contingency. Allocations are simply estimates and there is no need to track changes except to gather totals in order to help determine more accurate contract amounts in future years which Purchasing will continue to do as resources and systems permit.	
3.4	The City should establish a method of programming "reserves" on POs without charging the amount to a defunct department.	H	6	Agree	Purchasing Division /FM	This issue applies only to BPOs. Purchasing does not generally create "reserves" for a Purchase Order. For BPOs, the full contract authority is not always allocated. When Purchasing decided not to do so, the unallocated balance is placed in a non-departmental account for potential later allocation to departments when and if needed. While there is not a technical problem with using a defunct department (which is what is currently being done), it could be unintentionally misleading to those not familiar with the accounting system. Purchasing will explore the use of a different account.	12/31/2016
3.5	Contingencies that allow for increased spending above the contract amount should be properly defined as to when and how the money may be used. It should not be used as an extension of the same scope of services.	H	6	Disagree	Purchasing Division /FM	We <u>agree</u> with the general intent of this recommendation that where a contract contingency purpose can be identified, it should be identified. This process is IN PLACE. However, contingencies are usually for unexpected situations that cannot be defined; that is typically why there is a contingency. In the case of BPOs, the contingency is intended for the same scope of services or goods, it is just that the volume of the services or goods cannot be perfectly defined; BPOs generally provide an open purchase order for an estimated, but not specifically known, level of supplies or services.	
3.6	As part of recommendation 1.1 above, monitoring of the PO should be centralized and consistent, with the coordinating department ensuring that payments related to the contract are all processed through the	H	6	Agree	Purchasing Division /FM	Centralized management, as needed, will be provided through the Plan described in 1.1. The main approach will be to make further improvements so that decentralized management of each individual contractual assignment is better handled in the departments.	12/31/2016 (ERP solution is approx. 2018)
4.1	Develop a citywide training program on contract administration best practices, reinforcing the need for consistency between departments in contract oversight.	H	6	Agree	Purchasing Division /FM	We agree that improved training is a good idea. Purchasing plans to develop training based on the basic framework described in the response to 1.1.	12/31/2016 (ERP solution is approx. 2018)

MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: ABM Onsite Services - West, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
4.2	Establish policies and procedures for overseeing contracts citywide.	H	6	Agree	Purchasing Division /FM	The action plan for this item is included in the plan outlined in 1.1.	12/31/2016 (ERP solution is approx. 2018)

Priority

H – High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

M – Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

L – Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

Yellow areas - to be completed by the department