



Long Beach City Auditor's Office

Contract Administration Audit Limited Scope Review Report 5 of 10

Shaffer Psychological Institute

May 4, 2016

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Executive Summary

This is Report 5 of 10 in a series of limited scope audits of City contracts.

This report includes the results of a limited scope review of contracts HD-IC-01728 and HD-IC-01854 between the City of Long Beach Harbor Department (Harbor or Department) and Shaffer Psychological Institute (SPI or Contractor). It is the fifth 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.

To support one of its strategic goals, organizational development, Harbor contracts with SPI to provide employee assessment, coaching and facilitation services. For three years beginning in 2012, SPI delivered these services to the executive leadership group through a direct-service contract. In June 2015, in an attempt to consolidate similar services throughout the Department, SPI became one of a pool of contractors with similar qualifications and skills.

Although not specified in the request for quote (RFQ), Harbor planned to use only SPI from the pool of contractors to continue the services with the executive leadership group, primarily to provide consistency and continuity of services provided in prior years. Assignments were directly given to SPI without consideration of competitive proposals from other contractors in the pool, essentially turning the contract into a sole-source procurement.

In addition, the services to be provided are not clearly defined with specific objectives or measurable results, including a process for identifying when goals are achieved and services would be concluded. Therefore, it is unknown how much money is required to provide this service over the long term. This was demonstrated by Harbor wanting to increase the contract by 150% only six months into a two year contract term.

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

Results & Recommendations

For three years beginning June 2012, the City of Long Beach Harbor Department (Harbor or Department) contracted the services of Shaffer Psychological Institute (SPI or Contractor) to provide employee assessment, mentoring and coaching services for their executive leadership. The project-specific contract was closed in May 2015, six months short of its planned term and a new contract was immediately executed on an on-call basis along with four others.

Summary of Results
Service objectives and the establishment of measurable results were not clearly defined.

The five contracts were awarded under the same request for quote (RFQ), where each of the contractors in the “pool” have similar qualifications, provide like services and support Harbor’s strategic goals toward organizational development. Although it was not stated in the RFQ, Harbor planned to use SPI’s services for their executive leadership group as they had done under the prior contract and was not expecting to solicit work from other contractors in the on-call pool for this particular group. As a result, Harbor assigned work to SPI without obtaining competitive bids from others in the pool and depleted nearly all funds in the first six months of the contract term.

With regard to how Harbor planned to use the SPI contract, service objectives and the establishment of measurable results were not defined in a program, including specified objectives or measurable results such as how much services were needed and when they would be terminated and the costs associated with the efforts. Without a program and proper scope-of-work defining the necessary components of objectives and measurable results, Harbor was unable to reasonably determine total services and costs required nor assess the value of contract deliverables. These conditions attributed to the miscalculation of contract funds needed for these services. The following issues provide additional detail of the audit results along with recommendations to management.

Finding 1. Although it was not stated in the RFQ, the SPI contract was the only provider in the on-call pool to be used for executive leadership, which led to Harbor using the contract on a sole-source basis with no cost considerations.

Work assigned to SPI was not competitively bid among the pool of approved on-call contractors and Harbor did not adequately plan how much would be spent on these services or when maximum value would be obtained.

A. Contract treated like a sole-source procurement.

The purpose of on-call contracts is to ease procurement processes by grouping contractors with similar qualifications. According to Harbor’s Contracting Procedures Manual (Manual) Chapters 1.6 and 8.5, management provides a scope-of-work to contractors in the on-call pool to request a cost proposal when a service need arises. This process ensures that the services are still competitively bid.

However, it was never management’s plan to solicit bids from any of the pooled contractors other than SPI for services provided to the executive leadership as a way to ensure consistency in training. Without solicitation or consideration of pricing proposals from the pooled contractors, competitive assignment was never practiced and SPI was used in a sole-source capacity. Even

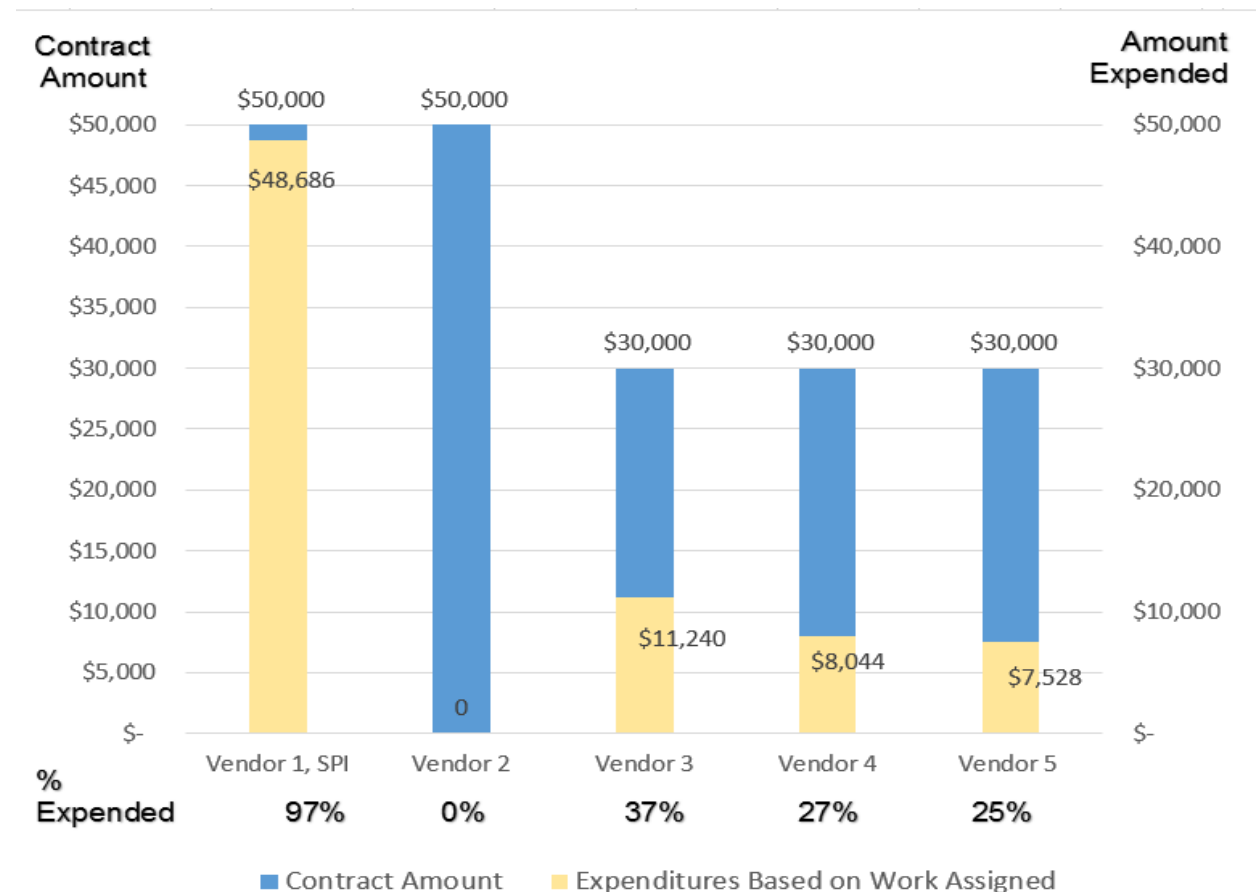
when nearly all money was expended on SPI's contract, instead of using other contractors in the pool with money available on their contracts, management elected to pursue an amendment to SPI's contract to increase funds.

B. No cost containment for services due to lack of objectives and measurable goals.

The services provided under the SPI contract are general in nature and not defined in a program with specified objectives or measurable results, including how much or how long services were needed, the costs associated with the efforts and what outcomes are expected. Defining a program is particularly important given the somewhat intangible nature of employee assessment, one-on-one coaching and consultation services. Lacking a clarified program attributes to Harbor's challenge with identifying the value obtained from the services or when the objectives have been achieved and when services should be terminated.

As a result, Harbor miscalculated the amount needed for the SPI contract. For example, only six months into the two-year term of the contract, Harbor assigned enough work to expend nearly 100 percent of the contract funds. Also, Figure 1 demonstrates that in about the same period, other contracts in the pool were assigned far less work. Further, even when money was available on the other contracts in the pool, Harbor requested an amendment to increase the amount of the SPI contract by 150%. Without defined objectives and measurable results to know when Harbor has reached its goal and enough services have been provided, it is likely management will continue to increase the contract amount when funds are depleted.

Figure 1
On-Call Contract Amounts and Expenditures
 (As of February 2016)



Recommendations:

- 1.1 Consider cancelling the SPI contract from the on-call pool, develop a program with objectives and measurable outcomes, and then rebid.**
- 1.2 For future on-call procurements, ensure the contractor pool has an array of experience that can be used on multiple projects, not just for one type of service or group, which diminishes the competitively priced process.**
- 1.3 Adhere to the best practices set out in the Contract Procedures Manual Chapters 1.6 and 8.5 that recommends cost proposals for projects assigned to the on-call contractor pool to ensure the most responsible bidder is accepted. Any exceptions to the Manual should be explained and documented.**

Finding 2. Harbor has developed a comprehensive Contracting Procedures Manual, but not all policies are followed.

The Manual serves as a resource to Harbor staff involved in contracting activities to minimize risk exposure and maximize the value received for expended funds. Certain areas of the Manual were not followed while administering the SPI contract. Two of the following items are repetitive findings, as we found the same situations with a recent audit.¹

A. Per Harbor's Contracting Procedures Manual, selection committee procedures were not followed.

According to Harbor's Manual Chapter 4.4, the selection committee should include members with requisite knowledge of the given project, including a cross-functional committee member from outside the primary division that will benefit from the contract services. However, for both SPI contracts, the selection committee was comprised of only two members and neither from outside the division.

The manual also requires the selection committee members to complete a "conflicts of interest" form included with the proposal evaluation form. The selection committee members did not complete the required form for the original SPI contract.

B. Harbor paid for services performed outside the contract term.

Chapter 8.14 of the Manual addresses the importance of the contractor not starting work before the contract is fully executed, Harbor not directing the contractor to perform work for which there is no authorized funding, or to allow the contractor to incur additional costs over the contract amount.

We found Harbor paid for services performed outside the contract. Specifically, Harbor paid \$2,250 for work performed in May 2012 and then subsequently charged it to the contract that became effective a month later in June 2012.

Also, Harbor authorized work in the current contract beginning June 2015 when there were insufficient funds to cover the services. After the majority of contract funds were expended in early February 2016, Harbor authorized SPI to begin planning future work and then requested a contract amendment for additional funds to pay for the services. According to the Contractor, although they began planning for the upcoming work, Harbor has since requested that they halt services pending approval of additional funding. Because the remaining funds on the contract, about \$1,300, are insufficient to cover the costs for the new assignment and the requested amendment has not yet been processed, it is unclear how Harbor will pay for the services it requested.

¹ Findings 2A and 2C are repetitive issues identified in the audit of Harbor's contract with the International Center for Management & Organization Effectiveness, Inc.

C. The contract lacks a right-to-audit clause.

During the audit, we reviewed the contract terms and conditions and found that neither the original or current SPI contracts contain a right-to-audit clause (RTA).² The City's contract templates reference an RTA clause, and it is unclear why it was not included in the SPI contracts.

Recommendations:

- 2.1 Adhere to Harbor's Contract Procedures Manual Chapters 4.4 and 4.5 for guidelines surrounding the selection evaluation committee. Any exceptions to the Manual should be explained and documented.**
- 2.2 Work should not be authorized prior to the execution of the contract or any subsequent amendments. In addition, contract execution dates should not be back-dated to capture work authorized during a period when no contract or available funding was in place.**
- 2.3 Work with the City Attorney's Office to ensure a sufficient right-to-audit clause is included in all contracts.**

² Appendix B is an example right-to-audit clause from the Association of Certified Fraud Examiners and can be used by organizations to develop their own clause, or to update an existing clause.

Background

Harbor uses contract services to provide coaching, mentoring and group facilitation across the enterprise.

The City of Long Beach Harbor Department (Harbor or Department) operates the Port of Long Beach, consisting of six bureaus and approximately 500 employees. Harbor's Human Resources and Team Development Division (HR) manages talent across the enterprise and is responsible for fostering a well-trained and team-oriented culture with professional and personal growth. Toward Harbor's strategic goal focused on organizational development, HR oversees Harbor's training and development programs and uses contract providers to deliver some of the services.

The Contracts

In June 2012, Harbor entered into direct-service contract with Shaffer Psychological Institute (SPI or Contractor) to provide executive coaching, assessment and change management services. The contract amount was initially \$45,000 for a one-year term, then amended twice to increase the contract to \$155,000 and extend the term by 2½ years through November 2015. A third amendment was executed to close the contract early in May 2015 and reduce the amount to the total expenditures to date, approximately \$140,000.

In early 2015, Harbor issued a request for quote (RFQ) to seek services that were similar to those specified in the SPI contract, including employee assessment and coaching consultation for management and professional level employees. The intention was to hire a diverse pool of trainers and coaches with a variety of backgrounds, skills and methods to add flexibility that would address the various coaching and facilitation needs of Harbor. Five contracts were subsequently awarded under the RFQ on an on-call basis for two-year terms. The aggregate amount of the on-call contracts was \$190,000, including one with SPI for \$50,000, as shown in Figure 2.

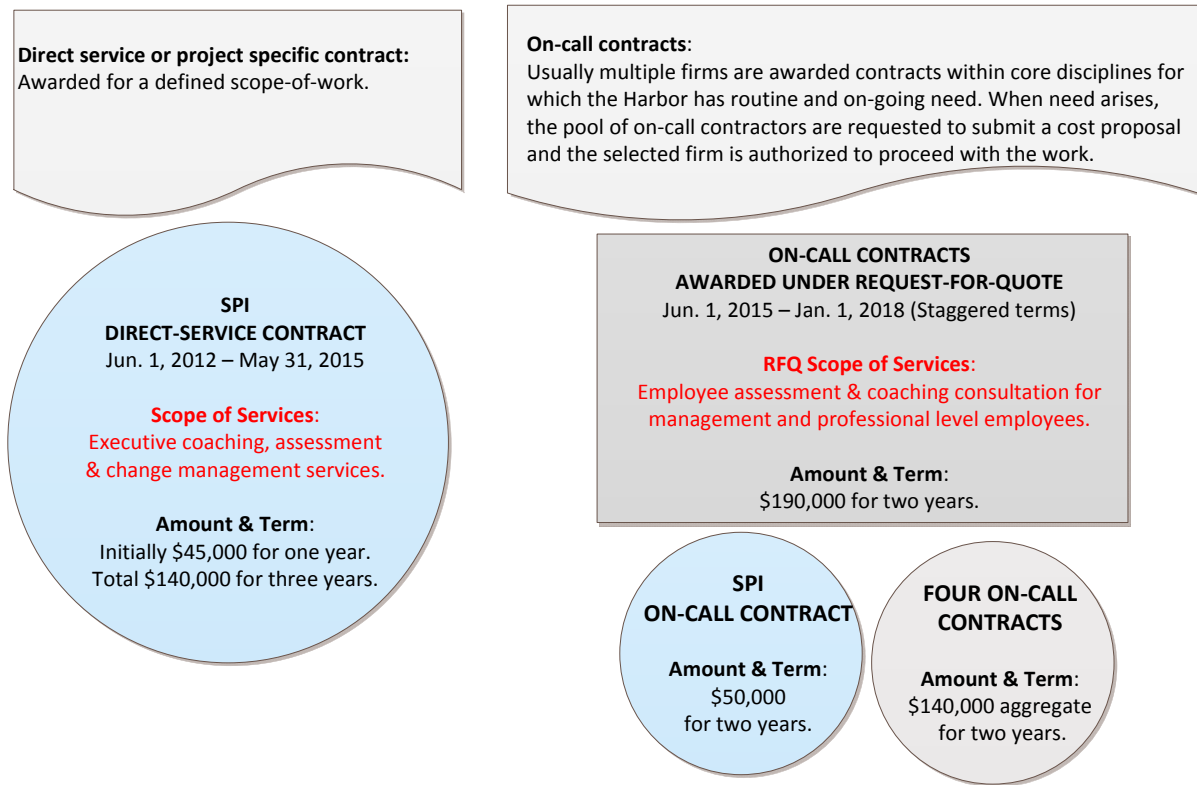
Contract types: Project-specific vs. On-call

Harbor's general policy is to provide every qualified provider with an equal opportunity to compete for procurements.

According to Harbor's Manual, the procurement of services can result in a variety of contract types, including project-specific, on-call or direct purchase. In the case of SPI, the prior contract was procured as a project-specific professional service contract, which means it was awarded for a distinct scope-of-work. Comparatively, the current contract was procured as an on-call professional service contract, which is usually multiple firms with core disciplines contracted for services for which Harbor has a routine and on-going need.

A competitive bid process is used among the pool of providers when a task (work) is needed and is based on a combination of cost or technical merit, depending on the situation. When the lowest cost provider is not selected, a justification should be maintained in the contract file.

Figure 2
Contracts for Assessment, Coaching and Change Management Services



Contractor
Shaffer Psychological Institute helps business form competitive advantage through people.

Shaffer Psychological Institute was founded in 1978 by Dr. Stuart Shaffer. The firm is a global team of industrial-organizational psychology, clinical psychology and organizational development experts. Among other services, SPI provides coaching, training and development, team facilitation and retreats that help the client build effective working relationships and organizational effectiveness.

After the contract is executed, Harbor is responsible for managing the contract to ensure the Contractor completes the required scope-of-work with quality. This contract is managed by staff in Harbor’s Human Resources and Team Development Division. 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 Harbor Department's (Harbor or Department) monitoring procedures and internal controls over the contract administration, examine related payments and to review the Contractor's compliance with key contract provisions. During the audit Harbor's contract with SPI was terminated, and a new contract for similar services was immediately executed. Therefore, both contracts were included in our review and the scope was the three year period of contract HD-IC-01728 from June 2012 through May 2015 and the nine month period of contract HD-IC-01854 from June 2015 through February 2016.

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 Harbor's procurement policies. In addition, we used best practices and principles in public procurement and contract monitoring to evaluate the adequacy of Harbor's oversight responsibilities.³ 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 Harbor's purchasing guidelines. We also verified that the contract was properly approved by the Board of Harbor Commissioners.
- 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 invoice 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.

³ *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 A

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.⁴ 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. Publish, communicate and implement written policies.</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>

⁴ *Components of an Effective Contract Monitoring System*, July 2003, by the State of Georgia Department of Audits and Accounts Performance Audit Operations Division.

Appendix B

A right-to-audit clause in a contract can help to control fraud and abuse by affording discovery devices in examinations. Below in Figure 4 is an example right-to-audit clause from the Association of Certified Fraud Examiners (ACFE) that organizations may use to develop their own clause, or to update an existing clause. The ACFE's sample language, however, is not intended to represent legal advice, and we do not make a recommendation to use this specific language. It is included solely as a reference.

Figure 4
ACFE Example Right to Audit Clause

Right to Audit

[Contractor] shall establish and maintain a reasonable accounting system that enables [Company] to readily identify [Contractor]'s assets, expenses, costs of goods, and use of funds. [Company] and its authorized representatives shall have the right to audit, to examine, and to make copies of or extracts from all financial and related records (in whatever form they may be kept, whether written, electronic, or other) relating to or pertaining to this [Contract or Agreement] kept by or under the control of the [Contractor], including, but not limited to those kept by the [Contractor], its employees, agents, assigns, successors, and subcontractors. Such records shall include, but not be limited to, accounting records, written policies and procedures; subcontract files (including proposals of successful and unsuccessful bidders, bid recaps, etc.); all paid vouchers including those for out-of-pocket expenses; other reimbursement supported by invoices; ledgers; cancelled checks; deposit slips; bank statements; journals; original estimates; estimating work sheets; contract amendments and change order files; backcharge logs and supporting documentation; insurance documents; payroll documents; timesheets; memoranda; and correspondence.

[Contractor] shall, at all times during the term of this [Contract or Agreement] and for a period of ten years after the completion of this [Contract or Agreement], maintain such records, together with such supporting or underlying documents and materials. The [Contractor] shall at any time requested by [Company], whether during or after completion of this [Contract or Agreement], and at [Contractor]'s own expense make such records available for inspection and audit (including copies and extracts of records as required) by [Company]. Such records shall be made available to [Company] during normal business hours at the [Contractor]'s office or place of business and [subject to a three day written notice/without prior notice]. In the event that no such location is available, then the financial records, together with the supporting or underlying documents and records, shall be made available for audit at a time and location that is convenient for [Company].

Right to Audit (continued)

[Contractor] shall ensure [Company] has these rights with [Contractor]'s employees, agents, assigns, successors, and subcontractors, and the obligations of these rights shall be explicitly included in any subcontracts or agreements formed between the [Contractor] and any subcontractors to the extent that those subcontracts or agreements relate to fulfillment of the [Contractor]'s obligations to [Company].

Costs of any audits conducted under the authority of this right to audit and not addressed elsewhere will be borne by [Company] unless certain exemption criteria are met. If the audit identifies overpricing or overcharges (of any nature) by the [Contractor] to [Company] in excess of one-half of one percent (.5%) of the total contract billings, the [Contractor] shall reimburse [Company] for the total costs of the audit. If the audit discovers substantive findings related to fraud, misrepresentation, or non-performance, [Company] may recoup the costs of the audit work from the [Contractor]. Any adjustments and/or payments that must be made as a result of any such audit or inspection of the [Contractor]'s invoices and/or records shall be made within a reasonable amount of time (not to exceed 90 days) from presentation of [Company]'s findings to [Contractor].

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Management Comments

The following are Management's response to the audit findings and recommendations as well as the Office of the City Auditor's clarification of the issues discussed in the Management response.



Memorandum

Date: 28 April 2016

To: Jon Slangerup, Chief Executive of the Harbor Department

From: Margaret Huebner, Director of Human Resources – Harbor Department

For: Laura Doud, City Auditor

Subject: **Contract Administration Audit - SPI**

Thank you for the opportunity to comment on the draft audit of the Contract Administration Audit for SPI, a professional services contract.

Management appreciates the recommendations in this audit and believes that the appropriate implementation of some of the recommendations will improve the contract administration processes.

The contract under audit was providing professional coaching and facilitation services to the Department, beginning in June 2012.

The Department believes that the audit report does misstate the context of the findings in some areas, and believes that a fuller understanding of the circumstances is warranted.

Following are our response to Finding 1:

Finding 1 – Although it was not stated in the RFQ, the SPI contract was the only provider in the on-call pool to be used for executive leadership, which led to Harbor using the contract on a sole-source basis with no cost considerations.

All of the vendors selected in this process have worked at the executive level with executive leadership, albeit in different areas of the Department, and have provided services appropriate for their qualifications. SPI was in the middle of coaching and facilitation services for on-going assignments, and when the work was re-bid, and SPI was successful in the re-bid process, the on-going assignments went to them, as they had specific knowledge of the individuals and work that was on-going. It would not have been prudent to switch to another vendor in the middle of these assignments.

A. Contract treated like sole-source procurement.

In hindsight, the Department realizes that a sole source procurement may have been more appropriate for those additional services for executive leadership facilitation, even though they were similar to other services already being provided under the existing contract and already underway. Our approach was based on guidance that was provided at the time, and now with a

better understanding of what transpired, the Department would have taken a different action. The other contractors did provide similar coaching and facilitation services at the executive level.

B. No cost containment for services due to lack of objectives and measurable goals.

It should be noted that SPI already had an on-going relationship with the Department, whereas the other contractors within the on-call pool were newer to the Department, and it was the very desire to diversify service providers which led to the on-call pool.

The Department disagrees that there was no cost containment for services due to a lack of objectives and measurable goals. The contract rates were negotiated and market competitive, the contract amounts were awarded based on the estimated use of the vendor over a two year period, and all work was pre-authorized, and the services were defined at the time of request. Over the course of time (2012 to 2016), SPI provided consistent, quality services to various internal clients and averaged slightly over \$40,000 in each year. When the second contract was awarded, \$50,000 was an amount that, at the time, appeared to be reasonable based upon the estimated services known at the time. This was also consistent with the past average spending that had occurred. Situations changed due to on-going programs where SPI services were requested beyond the original known activities.

During this time frame, when new contracts were just being put into place, a corresponding request for additional services were made by other internal users, and were related to previous work that had been facilitated by SPI. The logical course of selection was to have SPI continue with those services. Bringing on new individuals at that point in time would have required a learning curve that would have meant more hours, and hence, more expenditures, and was deemed not cost effective at that time, and possibly, with less qualitative results. Coincidentally, SPI had already been previously engaged in coaching with certain individuals, and the coaching assignments were on-going; in the case of coaching assignments, it is the recipient of the coaching who selects the coach, due to the nature of coaching. Coaching tends to be defined by the situation that needs to be addressed, and the fit for the assignment, generally determined by the recipient of the services. In the case of SPI, there was no expedient reason to change the coaching relationship. The request for additional services that were not anticipated at the inception of the RFP is what lead to the amendment request; however, SPI was not selected, and only a small amendment of \$9,990 was added to their contract so that on-going coaching activities could be completed.

The chart provided fails to take into account that Vendor 2, for example, did not have a contract in place until much later due to administrative delays. Vendors 3, 4, and 5 were awarded various assignments during this time, but were unrelated to the on-going work that SPI had been involved in. It was neither practical nor cost effective to award the work to other vendors at the time. They were newer to the organization, and SPI was providing an effective service.

Cc: Louis Gutierrez, Managing Director, Human Resources & Team Development

MANAGEMENT RESPONSE AND ACTION PLAN

Harbor Department

Contract Administration Audit: SPI

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Consider cancelling the SPI contract from the on-call pool, develop a program with objectives and measurable outcomes, and then rebid.	H	4	Disagree	HR TD	The funds have nearly been exhausted for SPI, and other vendors have been selected for facilitation. After all funds have been exhausted, they will no longer be in an on-call pool.	N/A
1.2	For future on-call procurements, ensure the contractor pool has an array of experience that can be used on multiple projects, not just for one type of service or group, which diminishes the competitively priced process.	M	4	Agree	HR TD	The HR TD divisions will carefully consider on-call contracts only if they are appropriate for the professional services needed.	Immediate
1.3	Adhere to the best practices set out in the Contract Procedures Manual Chapters 1.6 and 8.5 that recommends cost proposals for projects assigned to the on-call contractor pool to ensure the most responsible bidder is accepted. Any exceptions to the Manual should be explained and documented.	H	4	Agree	HR TD	Due to the way on-call contracts are described in the Manual, it appears inappropriate for the type of services that HR TD normally procures. Therefore, it has been determined that this type of contract may not meet the needs of the division, going forward. However, while the on-call contracts are in place for the duration, all contractors with sufficient funds for an assignment will be surveyed for bids on a specific project.	Immediate
2.1	Adhere to Harbor's Contract Procedures Manual Chapters 4.4 and 4.5 for guidelines surrounding the selection evaluation committee. Any exceptions to the Manual should be explained and documented.	H	5	Agree	HR TD	The Manual guidelines includes this sentence: "An odd number is suggested to prevent a tie situation." Previously we believed that this was a recommendation and not a mandate. We were not aware that three panel members are required in all instances, and that there are no exceptions or deviations. Going forward, the division will adhere to this requirement.	Immediate
2.2	Work should not be authorized prior to the execution of the contract or any subsequent amendments. In addition, contract execution dates should not be back-dated to capture work authorized during a period when no contract or available funding was in place.	H	5	Agree	HR TD	Due to an urgent need for services, the vendor was allowed to begin work. We understand that, going forward, a vendor may not be engaged prior to the contract being in full force.	Immediate
2.3	Work with the City Attorney's Office to ensure a sufficient right-to-audit clause is included in all contracts.	M	5	Agree	City Attorney	Management does not disagree with this recommendation.	Immediate

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



LAURA DOUD

MEMORANDUM

Date: May 3, 2016
To: Jon Slangerup, Chief Executive Officer of the Harbor Department
From: Laura Doud, City Auditor *ld*
Subject: Clarification of Issues in Management Comments for the Contract Administration Audit of Shaffer Psychological Institute

Based on Management's response to the audit issues and recommendations, it is necessary for this Office to provide clarification and reiterate the audit issues. This Office is committed to an audit process that fosters open and honest communication during every project. During an audit, we conscientiously keep the lines of communication open with the Department to ensure all potential issues are discussed and feedback is requested. At the end of fieldwork we distributed an outline of the audit issues, which were previously discussed and allowed Management ample time to review the document. We also coordinated a Closeout meeting to discuss and vet the issues with Management and address any concerns with the tone or factual content. We then allowed Management three weeks to review the draft report.

Given the more than sufficient opportunity for Management to communicate with this Office, it is disconcerting that Management's response states that we did not have a full understanding of the issues. The report was based on information provided to us by the Harbor Contract Administrator and the evidence was obtained over numerous interviews. New information included in Management's response was never provided nor communicated to us during the audit. In addition, the new information was not discussed at the Closeout meeting as key Management who were involved in the audit elected not to attend. As a result, Closeout meeting discussions were limited. More importantly, the new information provided by Management cannot be verified.

Where agreement was attained in the Closeout meeting, this Office reflected such revisions to the audit report where possible, but Management's response does not reflect those discussions. Management has focused their response on whether contract rates were competitive and on justifying their preferential use of one vendor over others in the on-call pool of providers. However, Management's response fell short in addressing the fact that cost was not controlled because the contract lacked a program defining objectives and measurable goals. Such a program would define what value Harbor would obtain from the services, how much was needed and when services should be terminated. The audit found that based on current practice, Management is likely to continue to increase the contract amount as funds are depleted because it can never be known when sufficient services have been provided. Therefore, cost containment is not possible.

Although not stated in the audit report, Management's original request to increase the contract by 150% was denied and was eventually revised to a much lower amount to accommodate unauthorized spending and work assignment awarded after all funds were spent.

We sincerely hope Management will reconsider the importance of the findings in this report and recognize that good contract oversight increases the Harbor's assurance it is receiving the most value for the dollars spent.