

Contract Administration Audit: Summary Report

Comprehensive changes are needed to better manage the City's extensive use of contracted goods and services



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April 10, 2017

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Background

Prior to 2015, the City Auditor's Office (CAO) performed several audits on or related to City contracts. These audits identified findings related to various aspects of the City's administration and oversight of contracts, with many of the identified findings recurring in the different audits. Based on the knowledge of this existing risk, the CAO included a project consisting of a series of limited scope audits in its 2015 Annual Work Plan to more closely evaluate the City's contract administration practices and to determine the pervasiveness of previous findings. This is a Summary Report compiling contract administrative risks and findings resulting from the nine Contract Administration Audits conducted through the limited scope audit project and from eight other related audits performed by the CAO over the last five years. Figure 1 below lists all the audit reports referred to in this Summary Report. To read individual reports and recommendations click the report title to be taken to CityAuditorLauraDoud.com.

Figure 1. List of Audits Summarized in Report

Limited Scope Contract Administration Audits Completed in Fiscal Year 2016

	Contractor Name	Service Provided	Department	Date Released
1	Shewak & Lajwanti International, Inc.	Upgrade internet security software	Technology & Innovation	December 2015
2	Solnovo, Inc.	PC replacement and inventory	Technology & Innovation	February 2016
3	ABM Onsite Services-West, Inc.	Custodial services	Citywide	February 2016
4	Int'l Center for Management and Organizational Effectiveness, Inc.	Training in leadership and team development	Harbor	March 2016
5	Shaffer Psychological Institute	Employee coaching and assessments	Harbor	May 2016
6	Graffiti Protective Coatings, Inc.	Graffiti abatement	Citywide	June 2016
7	Utiliworks Consulting, LLC	Consulting for smart meter project	Gas & Oil	July 2016
8	Allstar Fire Equipment, Inc.	Firefighter protective equipment	Fire	October 2016
9	Universal Protection Services, LP	Professional security services	Water	October 2016

Total Contract Value = \$11.5 million

Other Contract Related Audits Conducted in Fiscal Years 2012 through 2016

	Audit Name	Service Provided	Department	Date Released
10	Airport Leasing & Concessions*	Ground transportation, ground leases, and concessions	Airport	August 2012
11	Hauler Fee Payments 1*	Collection, recycling and disposal of solid waste	Public Works	June 2014
12	Hauler Fee Payments 2*	Collection, recycling and disposal of solid waste	Public Works	October 2014
13	Marine Bureau Contracts, Leases & Permits*	Retail, commercial, and not-for-profit services	Parks, Recreation & Marine (PRM)	October 2014
14	Airport Operating Agreement for Parking Facilities*	Operation of airport parking facilities and related services	Airport	March 2015
15	Emergency Board-Up Services Contract	Board-up of residential and commercial properties due to unsafe conditions	Economic & Property Development	April 2015
16	Job Order Contract	On-call construction projects	Public Works	May 2016
17	Park Maintenance	Landscape maintenance and tree trimming	Parks, Recreation & Marine	June 2016

Total Contract Value = \$54 million*

*This list includes contracts that require the contractor to remit a portion of their earnings to the City in exchange for a lease of City property or for providing a service on the City's behalf that has an associated fee. The Total Contract Value includes \$24.4 million in annual revenue generated from these contracts.

The Long Beach City Charter authorizes the City Council and City Manager (CM) to execute contracts for all departments except the Harbor and Water Departments, which are authorized by their respective Boards of Commissioners (BOCs). After a contract is executed, each department is responsible for monitoring the contract and performing related contract administration duties. As such, the CM and BOCs are charged with the responsibility for ensuring that departments properly and consistently oversee their contracts in a way that ensures the delivery of goods or services at the best value, and protects the City from risk.

As the limited scope Contract Administration Audits were completed over the past year, they were forwarded to Council. In June 2016, the Council requested the CM to address findings identified in the audits related to CM departments, and to report back on the development of training programs and policies for the oversight of City contracts. In September 2016, the CM responded to Council's request stating that the City plans to hire a consultant in the area of contract management to assist with implementing required training for all employees responsible for managing contracts. Since that time, the City has partnered with a consultant and developed a three-part "Effective Contract Management" training series that is available to all City Departments, with the first part having been held in February 2017. Some of the topics covered include: the importance of specifications and scopes of work, roles and responsibilities; and guidelines on how to evaluate performance, identify deficiencies, and document anomalies. Providing resources and guidance to City staff can have an immediate positive impact in protecting City assets. We are pleased that management has recognized the importance of good contract oversight and has begun addressing risks discussed throughout this report.

Results

Audits of contracts totaling nearly \$66 million indicate that comprehensive changes are needed to better manage the City's extensive use of contracted goods and services.

In the past five years, CAO performed audits involving a variety of City contracts, totaling \$53.9 million, and identified common findings related to contract administration and oversight. As a result, in 2015, the CAO decided to embark on a series of limited scope audits to further investigate these issues and concerns. By the end of 2016, the CAO conducted a total of 9 limited scope audits of contracts that had a total value of \$11.5 million. The findings of these limited scope audits further stressed our concerns with how the City administers and oversees hundreds of millions of dollars of contracted goods and services.

The reach of these contract management risks within the City could be extensive. While we were unable to determine the total number or amount of contractual commitments held by the City because contract information is decentralized and recorded inconsistently, we identified through the City's OpenLB website that at least \$574 million was spent Citywide on contracted services in fiscal year 2015.¹ Given the enormous amount of money spent each year on contracted goods and services, it is imperative that the City have an effective contract management process to help consistently administer the day-to-day oversight and ensure receipt of quality goods and services at competitive costs.

Throughout the audits performed, we found two primary factors that contributed to inconsistencies and lax oversight of City contracts.

- 1. Lack of an effective contract monitoring system makes it difficult to manage key terms, conditions and renewals.**
- 2. Lack of Citywide guidance or training on how to administer contracts creates inconsistencies in oversight practices.**

Factors Contributing to Inconsistent and Lax Contract Oversight

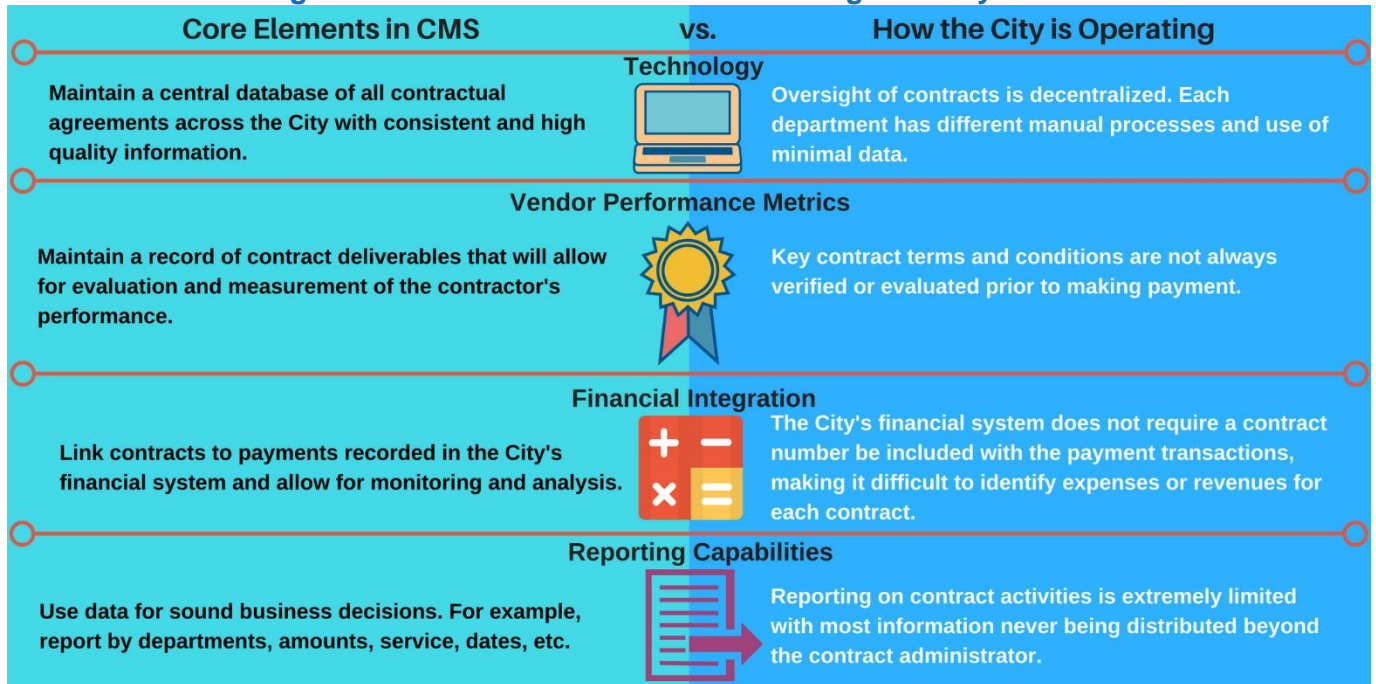
- 1. Lack of an effective contract monitoring system makes it difficult to manage key terms, conditions and renewals.**

The City lacks a central database or contract monitoring system (CMS) that captures all City contracts and that possesses the ability to manage key terms and conditions. Instead, the City is limited to a system managed by the City Clerk where contracts over \$200,000 that go before Council can be posted, but this system does not require the posting of all contracts under \$200,000 or contracts administered by the Harbor or Water Departments². In addition, the only data readily available by query from the City Clerk system is basic information, such as contract number and vendor name. Key terms, conditions, or milestone dates can only be retrieved by reading the entire contract. Obtaining a complete population of all City contracts is not possible without requesting the information from each individual department. Even then, we found instances where departments did not have a method for tracking all contracts under their purview. **Figure 2** displays the elements of a strong CMS as recommended by the Government Accountability Office (GAO).

¹ OpenLB is a reporting feature on the City's website that provides financial data to the public. (<http://www.longbeach.gov/openlb/>)

² Legistar and Contracts Online are used to store contracts processed by the City Clerk, providing only copies of contracts and limited sorting capability with no monitoring functionality. Harbor and Water Departments also do not maintain a CMS.

Figure 2. Core Elements in Contract Management Systems



Without a standardized tool to record and manage contracts, administrators are left to establish their own methods for tracking key contract terms and deliverables, many of which are performed manually. These manual processes were consistently found to be inadequate, lacking sufficient documentation to support decisions or to assess vendor performance and the ability to properly plan for contract renewals.

2. Lack of citywide guidance or training on how to administer contracts creates inconsistencies in oversight practices.

Contract administration is assigned to each department where they are responsible for preparing detailed documentation, initiating procurement of goods or services, and monitoring of vendor's performance and payment. Often, contract administration is assigned to department employees who are familiar with the contracted services to be performed, but do not possess the skills to manage the administrative responsibilities of contract oversight. Contract administration requires specific project management skill sets to ensure that contract terms, conditions, deliverables and proper documentation have been met.

At the time of the audits, except for the Harbor Department (Harbor), the City had not provided sufficient guidance or resources to employees. Policies and procedures based on contract oversight best practices had not been developed and coordinated training had not been provided. In contrast, Harbor, recognizing the necessity of providing adequate contract oversight, established a Contract Compliance Section and developed a detailed Contracting Procedures Manual. In addition, Harbor has a training program for employees involved in contract activities. While audits found that Harbor still has room for improvement related to contract oversight, having these resources available for employees is a step in the right direction.

Allowing contracts to be monitored by employees who are not properly trained increases the risk of inappropriate payments and disputes. For example, inadequate vendor monitoring can result in project delays due to misunderstanding or paying for services that are not performed satisfactorily. Training and guidance provided to employees should cover all phases of contract administration, including developing contract terms that are clear and verifiable, proper planning for contract renewals, sufficient

monitoring of vendor performance, and documenting interaction with the vendor.

Significant Risks Found in Audits

Without a CMS and proper resources or guidelines, employees are left to determine the best way to administer and enforce contracts. As seen in the audits conducted, this has resulted in inconsistent and poor contract oversight where there is little assurance that the City has received the services for which it has paid. The most concerning findings repeatedly identified were the limited verification of vendor's work, allowing work to be performed without a contract in place, and paying for work based on pricing that is no longer current or competitive.

- **Limited City verification of work performed and rates charged resulted in questionable payments made to vendors.**

Deliverables Not Verified

Best practices in contract administration require payments to vendors be conditioned on satisfactory performance and not made unless the City has assurance the vendor is making adequate progress in fulfilling contract requirements. Multiple audits found that the City's verification of vendor performance was nonexistent or insufficient to ensure services paid for were received and acceptable. City verification was limited for a variety of reasons, including poorly developed scopes of work, inadequate reporting requirements, and a lack of performance metrics, all of which should be used to assess completeness and quality of work. In other instances, the City relied on data supplied by the vendor without sufficient review, and made payments based on that data without verifying that work was performed or whether it conformed to contract terms. As a result, the City potentially paid for services that were never provided or were inadequate.



***Prior audit:** An audit of Long Beach Airport Leasing & Concessions found that the Airport did not independently validate or verify appropriateness of payments made by lessees, concessionaires or transportation providers. Per contract terms, payments to the City of at least \$1.3 million were to be based on the vendor's self-reported gross revenues. However, the Airport did not validate or verify the accuracy of gross sales reported. In fact, underlying support for payments was not required, making it impossible to know if the Airport received all monies owed under the contract.*

Similarly, the audits of Refuse Hauler Payments, managed by the Department of Public Works, found incorrect fees paid to the City. Better management of contracts and review or verification of payments would help ensure payments received are accurate.

4 of the 9 (44%) limited scope Contract Administration Audits found limited verification of vendor performance. For example, the ABM Custodial Contract of over \$1 million found that services were verified mostly by observation and could not be validated due to limited recordkeeping. In some cases, contract administrators were not aware of all the services to be provided. Therefore, the City department was not in a position to verify if all work had been completed.

Contract Rates Not Verified

Audits also found that the City paid vendors based on rates that conflicted with contract terms or were based on verbal or informal agreements made between City employees and the vendor. When contract pricing terms are not followed, there is little to control the cost and ensure the City pays a fair price. Payments should be made only after proper review has occurred, such as verification of hours and authorization of invoices.



Prior audit: An audit of the Marine Bureau Contracts, Leases & Permits found that rates for yacht broker slip leases were arbitrarily established by prior management and were heavily discounted, rather than based on the approved schedule of Master Fees & Charges. As a result, the City lost more than \$685,000 in lease revenue.

2 of the 9 (22%) limited scope Contract Administration Audits had instances where vendors were paid based on rates that conflicted with contract terms. For example, the Universal Protection Services contract under the Water Department found 65% of miscellaneous security services were billed and paid at higher rates than the rates outlined in the contract.

- **Insufficient renewal planning resulted in periods where work was performed without a contract in place, limiting the City's control over the vendor or protection in case of a dispute.**

Numerous audits found that the City did not properly plan for contract renewals, which led to contracts expiring when there was an ongoing need for services. This resulted in the City authorizing vendors to perform work under interim agreements, or without contracts, while a new contract was being initiated and approved. In cases where we found vendors had completed work for the City without a contract or agreement in place, we also found that the City backdated a new contract to pay for work performed during the period when no contract existed.



Prior audit: An audit of Emergency Board-Up Services found the department continued to assign approximately \$150,000 worth of work over five months to the vendor after the contract expired. A new contract was executed with the same vendor and backdated to coincide with the expiration of the prior contract.

In addition, an audit of the Airport Parking Operating Agreement found that the contract was on a month-to-month status for 6 years even though parking operations during that time significantly changed, resulting in outdated contract terms.

In addition, some of our audits found that the City extensively used interim or month-to-month agreements to bridge the gap between expired and newly executed contracts, some of which

spanned multiple years. Interim agreements are temporary arrangements and are not appropriate for long-term use. Furthermore, it did not appear that the City Council was always aware of the City's use of backdating or interim agreements as multiple audits found the history of the contract had not been clearly communicated in the documentation presented to the City Council.

➤ **Rates may no longer be reasonable or fair due to major contract changes.**

Vendors bid on a set of contract requirements, providing pricing on specific work to be performed. Multiple audits found instances where major changes to terms occurred after a contract was awarded, such as increases in rates or addition of new unrelated work, making the initial bid irrelevant. When major changes occur after a contract has been executed, the City does not know if pricing is still fair because changes are negotiated directly with the vendor rather than publicly bid. When the terms are negotiated outside the bidding process, there is always the possibility that another vendor could have provided the service at a better cost. Amendments for services that are significantly different from the original contract should instead be placed into new contracts.

Prior audit: The audit of Emergency Board- Up Services found that rates were increased only two months after the contract was executed, even though contract terms stated rates could only increase after one year. Labor rates increased by as much as 5.7% and costs for materials increased by as much as 65%.

2 of the 9 (22%) limited scope Contract Administration Audits had major changes to contract terms after execution. For example, an audit of the Utiliworks contract under the Gas & Oil Department, found that the department amended the contract by adding \$1.3 million of work that was outside the scope of the initial contract. The price was negotiated between the department and the vendor instead of competitively bid to ensure the City received the best value.



Additional Risks Identified

Vague Contract Terms Make it Difficult to Understand Contract Requirements

Contract administration best practices state that contractor performance is directly tied to clearly understanding requirements listed in the contract for all parties involved, and measuring and verifying performance throughout the process. However, various audits found contract scopes of work that were confusing, complicated or contained insufficient detail to allow the City to adequately verify whether services were in fact provided. In some instances, scopes of works were missing altogether. A lack of clarity regarding the work to be performed usually results in problems, such as poor performance, delays in services, and disputes over requirements, all leading to potential higher costs of services. The City should prepare scopes of work for each project that includes sufficient elements that affect the success of the project, including clear and specific deliverables, milestones, and project requirements.



FOR EXAMPLE: *Solnovo, Inc. was contracted by the City to provide professional and technical services on an “as-needed” basis for information technology projects. Solnovo was assigned to assist in replacing obsolete computers, however, a limited scope audit found that the City did not prepare a project scope of work. Lacking defined work expectations and not obtaining project cost estimates, there was no way to identify the services to be performed, cost for these services, the number of computers to be replaced, or the timeframe for completion.*

Technology Is Not Leveraged as a Tool to Assist in Contract Monitoring

As noted previously, many of the City’s contract oversight processes are performed manually with little use of technology. However, multiple audits found that technology was used by contractors to track work completed, including hours and tasks. There were limited situations in which the City attempted to use the contractors’ technology to assist them in the verification of services. In the cases where the City did attempt to use the contractors’ information, there was insufficient review and understanding of the data provided, bringing the reliability of the data into question. Without assurance that the data used to support vendor payments is accurate, there is no way to be sure that payments are based on actual work performed, creating the potential for overpayment. As a general rule, processes should be developed for analyzing system data to ascertain the reasonableness and reliability of the information.



FOR EXAMPLE: *Graffiti Protective Coatings (GPC) found GPC was contracted by the Public Works (PW) Department to provide graffiti services for \$1.07 million annually. GPC uses a web-based software, App-Order, to track work order information which was used to calculate charges. However, a limited scope audit found that the City relied on the App-Order system data without validating its accuracy even though the data’s reliability was questionable due to lack of system access controls and limited detailed reporting to monitor system activities.*

Long-Term Goals and Program Needs Are Not Assessed Prior to Contracting

Many audits found the City entered into a contract without fully understanding and assessing the long-term goals and needs of the City, its personnel or its assets. Without this assessment, the objectives in the contracts can be short-sighted, resulting in subsequent changes in the scope of work and additional costs. Programs initiated by the City are done with the best intentions, but do not always address long-term concerns or measurable outcomes to determine success. Contract administration processes should include a component to identify and analyze desired results, initial program costs and long-term maintenance needs.



FOR EXAMPLE: *The limited scope audit of Shaffer Psychological Institute found that services provided under the contract were general in nature and not defined in a program with specified objectives or measurable results, including how much or how long services were needed and the outcomes to be expected. As a result, Harbor miscalculated the amount needed for the contract and expended all funds just six months into the two-year term.*

In addition, an audit of Park Maintenance found that the Parks, Recreation & Marine Department's strategic documents focused on the expansion of parks, open spaces, and recreational opportunities, but did not adequately consider how these new areas were to be maintained and their long-term maintenance costs. This resulted in an incomplete maintenance contract scope and unrealistic performance requirements.

Evaluation and Selection Process is Not Transparent

We noted several occurrences where the contract evaluation and selection processes were not transparent. Specifically, Council was not always provided with clear and necessary information to ensure that an informed decision could be made. Written staff reports presented to Council should accurately describe vendor contract history, how competitive pricing was determined, evaluation selection criteria, and unique contract terms and conditions.

FOR EXAMPLE: *The limited scope audit of the Utiliworks contract under the Gas & Oil Department noted that the contract was amended to award the firm with unrelated additional program management work even though the firm did not participate in the department's competitive bid process. The written staff report presented to Council discussed that a competitive bid was initiated, but did not specifically state that Utiliworks did not submit a bid. Instead price was negotiated as a sole source procurement. Therefore, it is unclear whether Council understood they were approving \$1.3 million in work that may not represent competitive pricing.*



In other instances where policies or standard practices existed, we noted these guidelines were not followed, leading to inconsistent procurement and oversight. This can also lead to a lack of transparency and incorrect assumptions regarding the administration of the procurement and contract. Departments should always document and explain when deviations or exceptions to existing practice occur.

FOR EXAMPLE: A limited scope audit of Harbor's International Center for Management and Organizational Effectiveness, Inc. contract found that procedures outlined in the Department's Contracting Procedural Manual were not followed, which led to a perception of a conflict of interest. Per the manual, three individuals should make up the selection committee and certify in writing that they do not have a conflict of interest. However, the selection committee was only made up of two members, one of which had a prior working relationship with the vendor and failed to complete a conflict of interest form.

Lack of Records to Support Contract Activities

Best practices in contract administration include processes to document and support contract activities, issues, and resolutions. Contract files should include relevant records, including the contract and any amendments or changes, project schedules, validation of work performed, insurance, invoices and payments, communication with the vendor, evaluations, and administrative decisions. However, in many audits, we found instances of missing or insufficient records. Without this documentation, the City is at risk should disputes arise over billings, deliverables or other key contract provision. Along with maintaining key contract documents, project schedules should be used to document project progress, responsibilities, timing and problems.



FOR EXAMPLE: The limited scope audit of Shewak & Lajwanti under the Information Technology Department found that detailed project schedules and records to support all contract activities were lacking. Specifically, the project schedule was never updated and verbal discussions related to work coordination and schedule changes were never documented. As a result, we were unable to reconcile invoices against agreed-upon schedules to ensure the City paid for work actually performed.

In addition, a limited scope audit of Allstar Fire Equipment Services under the Fire Department found that the Department did not consistently maintain detailed records, including sufficient authorizations or packing slips, to support contract payments.

Purchase Orders are Not Used to Control Contract Costs

A purchase order (PO) is used to control the amount of money spent on a contract by ensuring vendors are not paid more than the contract allows. However, multiple audits found instances where PO amounts did not match the approved contract amounts or payments were made to the vendor outside the established PO. These instances increased the risk that vendors can be paid amounts beyond what was approved. Contract oversight processes should include adequate procedures and sufficient reviews to ensure POs are appropriately established, consistent with contract spending authority, and are capturing all related invoices.



FOR EXAMPLE: A limited scope audit of ABM Onsite Services citywide contract found about \$40,000 in contract services were paid outside the contract purchase order (PO), which could have resulted in overpayment to the vendor.

In addition, a recent audit of Job Order Contracts found that purchase order amounts exceeded the contract spending authority by \$13.6 million, which resulted in a vendor being paid \$1 million over the approved contract amount.

Summary

Contracts provide valuable goods and services that allow the City to deliver public services. However, there are risks associated with every contractual relationship, no matter how small, into which the City enters. Throughout our audits, we were able to highlight a pattern of risks related to the City's oversight of contracts. Demonstrating similar issues throughout different departments and contracts has resulted in increased awareness by management and a desire to implement controls to address them. We are pleased there are plans to provide City staff with the training and guidance needed to ensure its contract administrators can provide adequate contract oversight. In addition, we are hopeful the City can successfully integrate the overall management and monitoring of contracts into the implementation of the new financial system. Addressing these two overarching issues should provide employees with the tools and knowledge they need to better manage City contracts and to ensure receipt of quality goods and services at competitive costs.

Objective, Scope & Methodology

The City Auditor's Office (CAO) has performed many audits on or related to City contracts. These audits identified recurring issues related to various aspects of the City's administration and oversight of contracts. To more closely evaluate the City's contract administration practices and to determine the pervasiveness of the findings previously identified, the CAO's 2015 Annual Work Plan included a series of limited scope Contract Administration Audits which were conducted on a selected sample of contracts managed by various City departments, all of which were active at the time of the audit.

The objective of these audits was to evaluate the adequacy of the City's monitoring procedures and internal controls over contract administration. The project intended to include ten separate contract audits, however only nine were completed due to a Library Department contract audit that was placed on hold for future review, as discussed below. In addition, two additional audits of contracts under the Department of Development Services were halted due to scope limitations, as described below. Alternative contracts were selected to replace these two contracts.

- **Unique Management Services (UMS):** The Library Department administers the UMS contract for the collection of library fees. While conducting fieldwork, we identified risk areas beyond our original limited scope and also became aware of privacy laws surrounding library patron account information. Therefore, the UMS audit was placed on hold with plans to conduct an expanded audit of the department in the future. Consequently, this summary report does not include any discussion of work on the UMS contract audit.
- **Melendrez Associates and LPA:** Two contracts under the Department of Development Services (DS) were not completed due to issues related to limiting unrestricted auditor access to key personnel, in this case, contract administrators. This restriction is considered a scope limitation according to audit standards established by the Government Accountability Office (GAO).³ Placing restrictions on access to key personnel created a situation where information and evidence could not be obtained without potential bias, which is necessary to form thoroughly vetted results and recommendations.⁴

For each limited scope Contract Administration Audit, we reviewed the contract terms and conditions along with related records, including invoices, procurement documents, legislative text, contract amendments, and purchase orders. We also reviewed regulatory criteria including the City Charter Article XVIII, along with the City's Procurement Policy and Administrative Regulations. In addition, we used best practices and principals in public procurement and contract monitoring to evaluate the adequacy of oversight responsibilities. As part of this project, this report summarizes the key risks associated with the City's oversight of contracts as reported in nine Contract Administration Audits, as well as eight other audits performed between October 2011 and September 2016.

Audits summarized within this report were conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), which require 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 throughout these audits provided a reasonable basis for the findings and conclusions, based on the audit objectives and as summarized within this report.

³ The United States Government Accountability Office (GAO) sets out Generally Accepted Government Auditing Standards (GAGAS).

⁴ The GAO requires auditors to form recommendations based on a preponderance of evidence from a variety of sources.

APPENDIX A – Contract Administration Best Practices

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.⁵ Proper oversight and monitoring creates a strong control environment that can deter fraud, waste, and abuse. As shown in Figure 2, 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	
<ol style="list-style-type: none"> 1. Establish a consistent, high quality contract monitoring & compliance system across the organization. 2. Publish, communicate and implement written policies. 	<ol style="list-style-type: none"> 3. Provide training in contract compliance & monitoring to those with the responsibility for contract oversight. 4. Limit contract risk by requiring disclosure of conflicts of interest.
CLOSE OVERSIGHT and GOOD ADMINISTRATION	
<ol style="list-style-type: none"> 5. The contract scope-of-work often is the City’s primary means of communicating these expectations. Ensure the SOW includes: <ul style="list-style-type: none"> • Clear expectations and 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. 6. Use standard project schedules to document project progress, responsibilities, timing, and problems. <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. 7. Perform onsite monitoring to ensure the contractor’s compliance. <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. 	<ol style="list-style-type: none"> 8. Evaluate the contractor's performance and provide feedback. <ul style="list-style-type: none"> • Focus on outputs and outcomes that assess some aspect of the effect, result, or quality of the service. 9. Contract files are organized and complete. Records are critical should any contract dispute occur. Items to include: <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. 10. Contractor invoices are accurate, complete and sufficiently supported. Records regarding any change to payment schedules, pricing, or timing should be maintained. 11. Payments are linked to satisfactory performance, properly reviewed, and approved.

⁵ *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 – Management Comments



Date: March 30, 2017
To: Laura L. Doud, City Auditor
From: Patrick H. West, City Manager *PLWest*
Subject: **Staff Actions in Response to Contract Administration Audits**

As the national and local economies emerge from the Great Recession, it is important to remember that the City's fiscal health is not accident. It is the result of years of difficult decisions, prudence, and shared sacrifice. Over the past ten years, approximately \$140 million was eliminated to balance General Fund budgets. More than 700 positions were eliminated, including large numbers of management, administrative, and supervisory employee positions throughout all departments. This has come at a great cost to our bureaucratic and administrative functions, including contract management and oversight. That said, we never stopped in our attempts to meet the service priorities that our City Council and community expect.

We sincerely appreciate the City Auditor reviewing our contract management efforts and highlighting the need for improvement in this area. City staff has taken numerous actions in response to the City Auditor's contract administration audits and the City Council's July 21, 2016 request that the City Manager address the concerns raised by the City Auditor. A summary of these actions is provided below. Many of these actions were reported to the City Council in a memorandum dated December 8, 2016.

Increased Emphasis on Contract Administration

As was detailed in the September 6, 2016 memorandum to the City Council, the City Manager tasked Department Heads to place a higher priority on contract administration (management) and oversight, and to develop improved monitor processes and capability. This may result in some delays in service, but every effort will be made to avoid other impacts to customers.

Contract Administration Training Programs

As an immediate response to the contract administration audits, Financial Management offered "Effective Contract Management" training. Training topics included the lifespan of a contract, the responsibilities of a contract manager, and contract management best practices. Two large group sessions were attended in July 2016. The training was video recorded, and is now available on the Financial Management intranet website along with the accompanying PowerPoint presentation. The video and materials will remain available for on-demand training, with additional group sessions scheduled in 2017. Financial Management also provides specialized training for groups on an as-needed basis.

In February 2017, Financial Management and Public Works initiated a three-part training series on contract management, presented by an outside consultant. The first session was entitled, "The Why's and What's of Contract Management."

During this session, department contract staff learned about the importance of specification and scope of work as it relates to their department and the services provided through the contract. The roles of the department and Purchasing were defined, and guidelines were provided on how to evaluate performance, identify deficiencies, and adequately document any anomalies. The second session, which is currently underway, is entitled, "Taking it to the Next Level." This session focuses on the technical aspects of a contract, how to make changes to an existing contract, monitor and improve the performance of a particularly difficult vendor or situation, work across departmental lines on a city-wide contract, and prepare reports throughout the contract life. The content of the third session is currently under development.

Policies and Procedures for Oversight of Standardized Citywide Contracts

Financial Management is working towards providing City staff with contract management software tools to support improved contract oversight. The introduction of contract management software is expected to increase access to contract information and provide tools to strengthen ongoing monitoring efforts. Once implemented, software functionality will provide a strong foundation for development of additional policies and procedures related to contract oversight.

Staff has evaluated several software options, and is currently in the process of implementing contract functionality available within PlanetBids (the City's current bidding platform) as an interim improvement until the contract module in the new Citywide Enterprise Resource Planning (ERP) Financial and Human Resources system is launched. To date, Financial Management staff has loaded approximately 100 citywide usage contracts into PlanetBids, and is now starting to load newly awarded contracts. These contracts are being used to pilot test functionality such as improved access to contract documents, notifications in advance of contract expiration to allow time for a procurement process, and tracking of contractor performance. Staff plans to transition over to the new ERP to implement these improvements and more. While ERP implementation is in the early phases and a full list of upcoming improvements is not yet known, staff expects the system to be an important tool in support of improved contract oversight as a result of the ability to store and access contract information and documents alongside related financial data in a single system with significantly improved workflows.

New procurement-related policies and procedures and associated training will be developed in parallel with ERP system implementation, and will encompass appropriate contract-related content. In preparation, Purchasing staff are scheduled to enroll in an eight-week online course which examines the contract administration process and best practices for public procurements.

Capital Project Management and Delivery

To specifically address overall contract management and project delivery, Public Works has implemented several changes to improve effectiveness and efficiency. Organizationally, a new Public Works division, Project Management, was established to better align work teams, provide coordinated training, and ensure a focused approach.

Active project monitoring is now a priority for the Project Management teams. Tools, such as Microsoft Project and Project Tracker 2.0 are now a required element of managing project schedules and tasks. These tools will help keep resources focused and allow for better planning. Information is also being entered into a "project status template," which will be made available to the community in early 2017.

Additionally, Public Works in partnership with the City's utilities, is working to identify a new Project Performance Management software system. This new tool will help provide more robust oversight and coordination between various construction projects. The goal is to bring a recommendation before the City Council the first quarter of 2017.

Project Manager Qualifications and Certifications

Through the Civil Service testing and recruitment process, the City is hiring individuals with the necessary credentials, experience and training to handle the daily responsibilities of the job they perform. Continuing education is an important part of a successful project delivery process, and, over the past year, a significant amount of training was provided in several areas. Beyond these training efforts, Public Works is looking at more formal certifications for its Project Managers. Options being considered include:

- *Internal Certification Program:* Our staff will work with industry professionals and other City departments to create a training program that will teach the skills necessary to be a successful Project Manager with the City of Long Beach.
- *Class Completion at Local University Level:* Local universities such as California State University, Long Beach have classes taught through their Engineering Departments that focus on Project Management and Construction Management. It is being assessed if there is a class makeup that will build the skills necessary for a Project Manager.
- *Professional Certification Programs:* Certifications might include Project Management Professional (PMP), Project Management Institute (PMI), and Certified Associate in Project Management (CAPM).

JOC Program Changes

Though not part of the City Auditor's series of contract administration audits, the audit of the Job Order Contracting (JOC) program identified similar concerns about contract management and procedures. In response to the audit, the program was immediately suspended. Since that time, new policies and controls have been put into place through the adoption a new ordinance and the creation of a new Administrative Regulation. The new policies/controls include a limitation on the cost of the projects (\$500,000 max.), third-party

Laura L. Doud, City Auditor
March 30, 2017
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costing oversight, and enhanced JOC training for employees. The new JOC program returned to the City Council (for approval new JOC contractors) on March 21, 2017.

Again, I want to thank the City Auditor for highlighting the need for improvement in our contract management abilities, and we will continue to take steps to strengthen them.

PHW

CC: MAYOR AND MEMBERS OF THE CITY COUNCIL
CHARLES PARKIN, CITY ATTORNEY
TOM MODICA, ASSISTANT CITY MANAGER
ANITRA DEMPSEY, INTERIM DEPUTY CITY MANAGER
REBECCA JIMENEZ, ASSISTANT TO THE CITY MANAGER
DEPARTMENT HEADS



Long Beach Water Department

The Standard in Water Conservation &
Environmental Stewardship

Date: March 28, 2017

To: Laura Doud, City Auditor

From: Christopher J. Garner, General Manager, Long Beach Water Department

Subject: Response to Contract Administration Audit: Summary Report, March 9, 2017

The Long Beach Water Department (LBWD) would like to thank the Office of the City Auditor for conducting the review of LBWD's contract with Universal Protection Services, LP for professional security services included in the Summary Report. The collaborative process of the audit helped management facilitate implementation of enhanced Department-wide contract administration training, guidance and processes that we believe are addressing the findings in the report and producing desired results.

LBWD has taken measures to ensure that all of the recommendations specifically presented to us by the City Auditor's Office in the October 2016 report are implemented appropriately. Based on the recommendations in the 2016 report, the Security and Procurement Divisions have implemented both immediate changes to their business activities as well as continuous process modification to business operations where applicable. We feel that these changes have helped improve the overall management of the security services contract.

We are always open to suggestions for continuous improvement and thank the Auditor's staff for their assistance and efforts.