Long Beach City Auditor's Office

Contract Administration Audit
Limited Scope Review
Report 1 of 10

Shewak & Lajwanti International, Inc.

December 21, 2015

Laura L. Doud
City Auditor

Audit Team:
Deborah K. Ellis
Assistant City Auditor

Joanna M. Munar
Deputy City Auditor

Robin Glaser
Performance Auditor

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Executive Summary

This report includes the results of a limited scope audit of Contract 33517 between the City of Long Beach (City) and Shewak & Lajwanti International, Inc. (S&L or Contractor). It is the first 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.

The City's Technology & Innovation Department (Department) entered into a $280,000 contract with S&L to upgrade the City's internet security system software, Websense, migrate users to the new system, and provide technical support (Project). The Project was scheduled for three months, but at the time of this report, over 12 months later, the Project is still incomplete. While the City does not anticipate paying more than the initial contract amount, the delay has led to lost staff productivity estimated at $26,000 for the City and $158,000 for the Contractor.

Summary of Results

When contract administration lacks clear responsibilities, expectations, communication and deliverables, it increases the risk of project problems, wasted resources, and insufficient documentation to support contract disputes.

Almost immediately after the contract was executed and work began, a series of issues arose that caused significant delays to the Project. We found this was caused by:

1. The parties were not in agreement on Project requirements and deliverables from the onset of the Project.

2. There was insufficient documentation of Project activities. A detailed Project schedule with clear and agreed upon deliverables was not used for the Project, and most contract activity was not documented, including communications toward resolving ongoing issues.

3. The City has not provided needed resources, guidance and training Citywide on how to effectively manage contracts, even though the City spends millions of dollars each year procuring goods and services.

The amount and complexity of technology in the City continues to grow, but the Department's budgeted staff has not significantly changed to meet demand, resulting in dependence on contracting for additional technical expertise. In order for this strategy to be successful, it is critical that the City provide staff with the tools they need to effectively manage these contracts.

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

Results & Recommendations

The City contracted with Shewak & Lajwanti International, Inc. (S&L or Contractor) to upgrade the City's internet security system software, migrate users to the new system and provide on-going technical support, but the Project did not go as planned. The upgrade and implementation portion of the Project was estimated at three months but over a year later remains incomplete.

Although the City does not anticipate paying more than the original contract price, both the City and the Contractor experienced a loss of productivity combined at approximately $184,000.

Our review found there were differences of opinions between the Department and the Contractor on expectations and deliverables throughout the Project. Coordinated and valuable documentation regarding Project planning, processes, responsibilities and conflict resolutions is not available, making it difficult to determine where the miscommunication originated or who was at fault.

However, we did find that the City did not employ sound contract monitoring practices, which likely contributed to the Project lingering and requiring additional staff resources.

Finding 1. The City and Contractor lacked agreement on Project requirements and deliverables, which attributed to Project delays.

Implementation of the Websense software into the City's network environment involves interfaces with other systems and requires comprehensive planning that recognizes all related components. Planning documents that explicitly state requirements, expectations and deliverables are essential and should not be assumed. Since both parties believe key information was not communicated effectively, Project issues arose almost immediately.

A. There is a difference in opinion on whether sufficient information was provided in the scope-of-work and preplanning meetings for the Contractor to have been able to design an appropriate solution.

- The Contractor states the scope-of-work provided limited information on the City's overall system environment that would interact with Websense, and there were many unknowns before the Project began. They also assert the preplanning meeting was not comprehensive to include granular discussion on the City's environment, particularly those that were fragmented (i.e. enterprise systems), and the meetings did not include necessary technology staff with this knowledge.

- The Department believes their prepared scope-of-work concerning the City's network system environment and specifications was extremely detailed and sufficient for the Contractor to propose a solution. In addition, the Contractor was expected to know which questions to ask during the preplanning meetings to obtain the information they needed to accurately propose a design.

B. The Department disagreed with the technical changes in the Contractor's proposed redesign, which resulted in the Contractor having to employ a more complex solution, further delaying the Project. The complexity of the redesign resulted in technical issues, which remain outstanding

with both parties disagreeing on whether the upgrade portion of the Project is complete based on individual interpretations of deliverables.

- The Contractor believes the outstanding technical issues fall under the maintenance portion of the contract and should be handled by Websense to resolve, rather than S&L.
- The Department states the new Websense was integrated soon after the redesign, but not all the firewall features of the upgrade worked unless the Department rerouted some users. This workaround created additional issues that are not ideal (i.e., holes in the proxy), and the Department expected the Contractor to help resolve the problems.

Recommendation:

1.1 Prepare contract scopes-of-work with sufficient information to ensure the success of the project and include deliverables that are defined, specific and clear. Due to limited staff resources, the use of outside expertise to assist in the development of detailed scopes-of-work may be worthy of consideration.

Finding 2. The City lacks sufficient documentation concerning Project management and an agreed upon dispute resolution process.

Proper planning without a Project schedule, clear and agreed upon deliverables, and a dispute resolution process significantly increases the risk of Project failure or problems due to lack of effective communication. In this instance, a three-month Project has stretched to over a year and issues remain unresolved, resulting in continued loss of productivity for both parties.

A. The Contractor provided a work plan with their proposal. However, once the contract was finalized, neither the Contractor nor the Department prepared a detailed Project schedule that would have included daily activities/tasks, resources/staff, timeline/deadlines, Project progress, and known problems and resolutions. Instead, the majority of communication was done verbally.

B. Issues that arose during the Project were not documented. For example, because this Project was not completed on time, it coincided with the City's implementation of Microsoft 365, making the Websense Project even more complex. This issue added to the Contractor's requirements.

C. A disagreement about whether the on-going technical problems are to be handled by the Contractor or Websense has been lingering for months. The City does not have a dispute resolution process that effectively moves issues like this toward resolution, leaving final payment to the Contractor outstanding.

Recommendations:

2.1 Use standard project schedules to document project progress, responsibilities, timing and problems. This can be a requirement for the contractor, eliminating City time to prepare and update.

2.2 Both parties should agree to the frequency of project schedule updates, along with holding regular meetings to discuss the information in the project schedule and agreement on changes.

2.3 Project status should be regularly communicated to supervisors with emphasis on target deadlines and reasons for delays.

2.4 The scope-of-work and related contract should include a dispute resolution process that focuses on quickly identifying problems and solutions. The Contract Administrator should have a process to document issues that arise and resolution efforts. This documentation is critical should any contract disputes occur.

2.5 Any changes to payment schedules, pricing or timing of payment should be thoroughly documented and retained with the contract.

Finding 3. The City has not provided resources, guidance, and training on how to effectively manage a contract.

It is commonly known that technology in the City has grown substantially in recent years along with the complexity of maintaining it. However, the Department's budgeted fulltime equivalents (FTEs) have not significantly changed in the past five years to meet demand, resulting in dependence on contracting for additional technical expertise. While the Department states they provided Project Management training to the staff, it is evident that best practices obtained from the training are not consistently being employed.

Citywide, millions of dollars a year are spent on contracted services, but the City has not developed or provided a Citywide training program or reference material necessary for staff to properly and consistently manage contracts.

- When a contract is executed, the City is responsible for managing the contract to ensure performance. Overseeing a contract such as this requires both technical and contract administration knowledge. These are two very different skill sets. Yet, management has assumed that if the contract administrator has technical knowledge of the Project they could also effectively manage the contracted work.

- There is no standard Citywide training on contract administration for its employees. In addition, there is a lack of policies, procedures or guidelines detailing best practices of contract administration for employees to reference or follow.

Recommendation:

3.1 Develop a Citywide training program on contract administration best practices reinforcing the need for consistency between departments in contract oversight.

3.2 Establish policies and procedures for overseeing contracts Citywide.
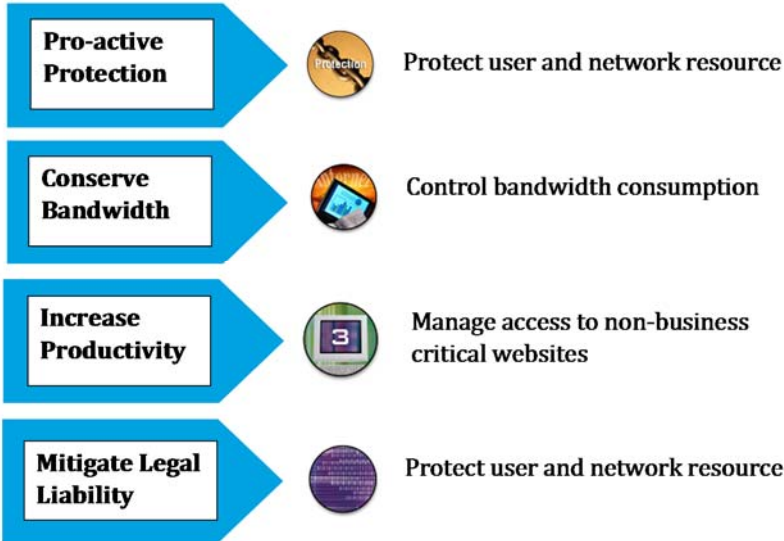
Background

Use of technology in the City has grown substantially in recent years along with the complexity of maintaining it.

The Department recently expanded the City's internet bandwidth capacity to accommodate greater demand. Due to this growth and heightened cyber threats, the Department reviewed the City's internet security solution, Websense, and elected to upgrade the software.

Websense filters content within an organization, limits the flow of content, and tracks the use on internet resources, as shown in Figure 1. These security features help to protect the City and increase productivity throughout the organization.

Figure 1
Websense Security Software

Pro-active Protection	Protect user and network resource
Conserve Bandwidth	Control bandwidth consumption
Increase Productivity	Manage access to non-business critical websites
Mitigate Legal Liability	Protect user and network resource

Contract

In July 2014, the City entered into a $280,000 contract with Shewak & Lajwanti International, Inc. (S&L or Contractor) to upgrade the Websense Internet Security Solution software. The contract was competitively bid through a request-for-proposal (RFP) process in accordance with the City's purchasing requirements. Although the bidding invitation was open to any qualified provider, S&L is one of only a few Websense software representatives in the area and was the sole bidder to the RFP.

The Contractor was to install new servers, implement upgraded software, and migrate all City users to the new internet security environment. Upon successful migration, the City would transition from the Contractor's support to Websense, the owner of the software, for any subsequent technical assistance with the software, as needed. The contract includes on-going software licensing for a three-year period through 2017.

The Contractor is a computer network infrastructure and security integrator based in Pasadena, California. Founded in1997, the company's revenues

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Contract Monitoring

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

are estimated at $2.5 million. They have worked for a number of small firms and Fortune 1000 organizations, and have premier partnerships with companies like Microsoft and Dell. According to the contract, the company's Senior Systems Engineer served as the key representative for the Project, with support provided by a Senior Systems Consultant.

After entering into a contractual obligation, the City is responsible for monitoring the Contractor's performance and compliance with contract terms and conditions. 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 (July 2014 to July 2015) of the three-year period of this contract.

We reviewed the contracts' 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.[1]

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 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.

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[1] *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.[2]

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 2
Best Practices in Contract Management

TONE AT THE TOP	
I. Establish a consistent, high quality contract monitoring & compliance system across the organization.	III. Provide training in contract compliance & monitoring to those with the responsibility for contract oversight.
II. Publish, communicate and implement written policies.	IV. Limit contract risk by requiring disclosure of conflicts of interest.

CLOSE OVERSIGHT and GOOD ADMINISTRATION	
V. The contract scope-of-work often is the City's primary means of communicating these expectations. Ensure the SOW includes: • 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. VI. Use standard project schedules to document project progress, responsibilities, timing, and problems. • Hold regular meetings to discuss the information in the schedule and agreement on changes. Agree to the frequency of updates. VII. Perform onsite monitoring to ensure the contractor's compliance. • Visits can verify actual performance against scheduled or reported performance and ensure the contractor is dedicating sufficient resources and appropriate personnel.	VIII. Evaluate the contractor's performance and provide feedback. • Focus on outputs and outcomes that assess some aspect of the effect, result, or quality of the service. IX. Contract files are organized and complete. Records are critical should any contract dispute occur. Items to include: • 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. X. Contractor invoices are accurate, complete & sufficiently supported. Records regarding any change to payment schedules, pricing, or timing should be maintained. XI. Payments are linked to satisfactory performance, properly reviewed, and approved.

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[2] *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

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

City of Long Beach
Working Together to Serve

Memorandum

Date:	December 24, 2015
To:	Patrick H. West, City Manager
From:	Bryan M. Sastokas, Chief Information Officer, Technology & Innovation
For:	Laura Doud, City Auditor
Subject:	**Response to Contract Administration Audit for Shewak & Lajwanti International, 1 of 10**

Thank you for an opportunity to comment on the draft audit of the Contract Administration for the Shewak & Lajwanti International contract.

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

The project was completed within the contract amount and budget available. This project did take longer than originally contemplated, however, the delay was necessary to ensure the City received the desired outcome. The contractor was required to meet the detailed scope provided in the RFP and management ensured that the City did not pay until the product was performing as required under the contract.

Management disagrees with the estimated value of the time that was lost due to staff productivity ($184,000). S&L lacked the expertise to implement this technical solution without the assistance of the manufacturer of the Websense appliance. Although S&L spent more time resolving issues, it did not require significant staff time to follow up with S&L to ensure the project was continuing to progress. Staff worked on other tasks while they were waiting for S&L to resolve the technical issues with the manufacturer. During the RFP process, S&L had the ability to ask clarifying questions and they did ask some questions. If S&L spent more time than they anticipated on the project, they may have underestimated their level of effort required during the bid process. S&L assumed the risk of delivering the agreed upon services when they responded to the fixed price required in the RFP.

Following are our responses to each of the 3 findings:

Finding 1 – The City and Contractor lacked agreement on project requirements and deliverables, which attributed to Project delays.

We did have an agreement with S&L to perform based on the scope of work outlined in the RFP. S&L lacked the technical capability to resolve issues regarding the configuration of their content filter server and the City would not accept the delivery of the product until the configuration errors were resolved and their server performed as outlined in the original scope of work.

S&L provided a comprehensive implementation schedule in their response to the RFP. However, S&L was not able to meet the timelines as proposed in the implementation schedule due to problems with the performance and configuration of the product.

While the implementation of Office 365 made the final configuration more challenging for S&L, this was not the primary cause of the delays. S&L lacked the expertise to address the Office 365 configuration requirements and they requested that Websense Technical Support provide a solution to meet our requirements. Websense Technical Support intervened and was able to resolve the configuration problems so that the product could perform at the level required in the RFP.

Finding 2 – The City lacks sufficient documentation concerning Project management and an agreed upon dispute resolution process.

Our level of effort in project management varies by the size of the project in order to make the effort cost effective. A project of this size would not justify the time needed to create a daily, detailed project schedule that the City Auditor requested. While we could request that vendors create the schedule for the City, the cost of doing so would increase the cost of the project. The terms of the agreement clearly outlined that the City was paying S&L based on the scope of work. The City did not exceed the costs agreed to in S&L's proposal. City management ensured that S&L was not paid until the product was performing as required under the contract. In this case, there was no need for a dispute resolution process, because S&L was bound to deliver the product in the agreement. S&L eventually engaged the product manufacturer to provide the level of expertise required to resolve the configuration challenges. Once these challenges were resolved, they were able to deliver the product that was configured and performing to the correct specifications.

Finding 3 – The City has not provided resources, guidance and training on how to effectively manage a contract.

As mentioned in the audit, staff do currently receive training in project management best practices. However, the City is not currently staffed to provide the level of contract and project management oversight outlined in the report. We agree that having sufficient staffing to allow TI to establish a Project Management Office (PMO) and standardized project/contract management methodologies would be helpful to ensure consistent practices on all technology projects Citywide.

However, in this case, staff required that S&L deliver the services requested in the RFP. While the daily documentation of tasks may not have been formalized, ultimately S&L was held accountable for delivering the services outlined in the contract at the agreed upon costs.

Patrick H. West
December 24, 2015
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Should you have any questions, please contact Bryan Sastokas at 8-6234.

cc: Tom Modica, Assistant City Manager
       Arturo Sanchez, Deputy City Manager
       Jyl Marden, Assistant to the City Manager
       Rebecca Jimenez, Assistant to the City Manager

MANAGEMENT RESPONSE AND ACTION PLAN

Technology and Innovation Department
Contract Administration Audit: Shewak and Lajwanti International, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Prepare contract scope-of-works with sufficient information to ensure the success of the project and include deliverables that are defined, specific and clear. Due to limited staff resources, the use of outside expertise to assist in the development of detailed scopes-of-work may be worthy of consideration.	H	3	Disagree	Departmental contracts-TI, Citywide Contracts-FM Purchasing	Management agrees that scopes of work should have adequate detail, and that outside assistance should be used as appropriate. TI will consider using outside assistance whenever it is felt to be worth the cost and the potential time delay. For the size of the S&L project, it did not make sense to hire outside assistance. The delays on the project were due to vendor not having adequate knowledge about the intricacies of the Websense content filter appliance.	Immediate
2.1	Use standard project schedules to document project progress, responsibilities, timing and problems. This can be a requirement for the contractor, eliminating City time to prepare and update.	H	3	Agree	Departmental contracts-TI, Citywide Contracts-FM Purchasing	Project scheduling is already a part of the scope of work of many substantive projects. Management will incorporate it into more projects.	Immediate
2.2	Both parties should agree to the frequency of project schedule updates, along with holding regular meetings to discuss the information in the project schedule and agreement on changes.	M	3	Agree	TI	TI currently has regular project status meetings with vendors on all large projects. The department will implement the process on smaller projects as well.	Immediate
2.3	Project status should be regularly communicated to supervisors with emphasis on target deadlines and reasons for delays.	M	3	Agree	TI	Management agrees that project status should be regularly communicated to supervisors with emphasis on target deadlines and the reasons for the delays. This is currently a practice on all large projects and management will implement this practice on smaller projects.	Immediate

MANAGEMENT RESPONSE AND ACTION PLAN

Technology and Innovation Department
Contract Administration Audit: Shewak and Lajwanti International, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
2.4	The scope-of-work and related contract should include a dispute resolution process that focuses on quickly identifying problems and solutions. The Contract Administrator should have a process to document issues that arise and resolution efforts. This documentation is critical should any contract disputes occur.	H	3	Disagree	Departmental contracts-TI, Citywide Contracts-FM Purchasing	Management agrees that there should be general contract training (addressed in another audit) that should include handling disputes. However, Management is not convinced that the bureaucracy of adding specific, inherently narrow dispute resolution methodology, especially on relatively small contracts is a good idea. The timeframe provided relates to the general training intended to be provided by FM and is addressed in a different audit. In this case, a dispute resolution process would not have improved S&L's abiltiy to perform the level of agreed upon services.	??
2.5	Any changes to payment schedules, pricing or timing of payment should be thoroughly documented and retained with the contract.	M	4	Agree	TI	TI Management concurs and will ensure that changes in payment schedules, etc. will be documented.	Immediate
3.1	Develop a Citywide training program on contract administration best practices reinforcing the need for consistency between departments in contract oversight.	H	4	Agree	Citywide	This is a repeat of a recommendation in another audit and is responded to in that audit.	??
3.2	Establish policies and procedures for overseeing contracts Citywide.	H	4	Agree	Citywide	This is a repeat of a recommendation in another audit and is responded to in that audit.	??

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.

MANAGEMENT RESPONSE AND ACTION PLAN
Technology and Innovation Department
Contract Administration Audit: Shewak and Lajwanti International, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation

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

MEMORANDUM

Date: **January 7, 2016**
To: **Bryan M. Sastokas, Chief Information Officer, Technology & Innovation**
             Pat West, City Manager
From: **Laura Doud, City Auditor**
Subject: **Clarification of Issues in Management Comments for the Contract Administration Audit of Shewak & Lajwanti International, Inc.**

During any audit, this Office and Management may disagree on findings and recommendations as noted in Management's response to the audit report. Based on the comments provided by Management, we felt it was necessary to provide clarification about the purpose of this particular audit and the risk the findings pose to the City.

This audit report is one in a series of ten audits that will examine the City's oversight of contracted goods and services. This project was initiated based on past findings from audits over the years that raised concerns over the City's ability to adequately oversee the millions of dollars being contracted annually. The results of the ten contract audits will be consolidated into a summary report that will also include prior related findings.

This series of contract oversight audits is based on best practices in contract management as outlined in Appendix A. The use of these best practices increases the City's assurance that it is receiving the appropriate goods and services in a timely and efficient manner, while reducing the risk of liability due to disagreements, poor performance, fraud or mismanagement.

A city the size of Long Beach that contracts millions of dollars annually for goods and services should be following best practices in contract oversight at all levels. While we do not consider a $280,000 project small, if the City has set a certain dollar threshold for following best practices, that information was never communicated to us. Lax oversight in contract mangement puts the City at significant risk. If the City is aware of the risk they are assuming, then they should have policy specifically stating the City's risk appetite levels.

We sincerely hope Management will reconsider the importance of the findings in this report and their effect citywide, and commit to providing staff with the resources and training desperately needed to reduce the City's risk of liability.