Long Beach
City Auditor's Office

Contract Administration Audit
Limited Scope Review
Report 2 of 10

Solnovo, Inc.

February 1, 2016

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Executive Summary

This report includes the results of a limited scope review of contract #33472 between the City of Long Beach (City) and Solnovo, Inc. (Solnovo or Contractor). It is the second 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.

Through the City's procurement process, the Technology & Innovation Department (Department) received authorization to spend up to $950,000 for general professional and technical services amongst a pool of 16 vendors. As work was identified, the Department was expected to prepare detailed project specifications and solicit pricing from the pool of vendors.

Summary of Results
When contract administration lacks clear responsibilities, expectations, communication and deliverables, it increases the risk of project problems, resulting in wasted resources.

Solnovo was one of the 16 vendors in the pool and received a $150,000 contract for as-needed services. Prior to this award, Solnovo had a nine-year working relationship with the City. This level of familiarity contributed to lax oversight procedures by the Department, resulting in likely inflated pricing and payment for data never used.

The first job assigned to Solnovo was for personal computer (PC) replacement. The Department awarded the project to Solnovo without a documented scope-of-work or solicitation of pricing from other vendors in the pool. Lacking this documentation, we were unable to identify what services were to be performed, such as how many PCs were to be replaced, the timeframe for completion or the estimated cost. In addition, Solnovo was allowed to invoice based on pricing established in their prior contract. Since the Department had recently obtained much lower pricing under another contract for similar services, it is likely the City overpaid Solnovo for this assignment.

After completion of the PC replacement project, a small amount of money remained on the contract. The Department verbally requested a new proposal from Solnovo to perform a PC inventory. Again this was done without the Department preparing project specifications or obtaining pricing proposals. The Department stated that Solnovo's work was unsatisfactory, but paid them in full. Lacking documentation of expectations or deliverables, the problem with Solnovo's work, if one exists, is not known, because the Department never completed a reconciliation of Solnovo's inventory, which is now over a year old. It is also questionable whether the inventory, due to its age, has any value, meaning the City paid over $11,000 for information it never used.

The amount and complexity of technology in the City continues to grow, but the Department's budgeted staff has not significantly changed to meet the 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, patience and cooperation during this audit.

Results & Recommendations

A long-term relationship with the vendor created a level of familiarity that contributed to poor contract oversight processes.

The Technology & Innovation Department (Department) initiated a bid for as-needed professional and technical services, which involves selecting a qualified group of vendors able to provide a range of professional services. As a result of the bid, 16 qualified vendors were selected, with the Department receiving City Council authorization to allocate up to $950,000 annually to the group.

Solnovo, Inc. (Solnovo or Contractor) was one of the 16 vendors in the group able to provide general professional and technical services and was awarded a $150,000 contract. Prior to this contract, the Department had worked with Solnovo for the past nine years, creating a level of familiarity that contributed to the Department awarding work without receiving pricing from other vendors in the pool and providing minimal documentation regarding expectations and deliverables. As a result, the Department likely paid more for certain services while other deliverables were never utilized.

Solnovo was assigned two jobs under this contract. The first job was to assist the Department in replacing approximately 700 incompatible City personal computers (PCs) in preparation for the Microsoft Office 365 project rollout. The second job was to collect PC asset information for the Department's equipment inventory. The following findings regarding problems with the Department's oversight of this contract are grouped per job.

PC REPLACEMENT

Finding 1. The Department did not prepare a project scope-of-work or obtain agreed-upon pricing prior to the initiation of the project.

As-needed contracts only provide a general description of the professional services that are offered. Detailed project specifications are usually prepared once specific work is identified and ready to be assigned to a vendor. To ensure the City is obtaining the best value, project specifications should be distributed to multiple as-needed vendors in the group for proposed pricing (number of hours at contracted price). The City has not historically required staff to obtain pricing from more than one as-needed contractor, leaving it vulnerable to inflated costs.

For the PC replacement project, the Department did not prepare a project scope-of-work, nor did they solicit pricing from pooled vendors. Instead, they directly assigned the work to Solnovo because the firm had performed this type of work for the Department previously, and Solnovo was already on-site.

A. Lacking essential contract elements documenting defined work expectations and cost, we were unable to identify what services were to be performed, how many PCs were to be replaced, the timeframe for completion of the work or the estimated cost.

B. Because the City did not solicit pricing from any of the other as-needed contractors, it is not known if the City received fair value for the price Solnovo billed. However, earlier in 2015, the Department issued another request-for-proposal (RFP) for on-going PC replacement that resulted in pricing that was less than half of what Solnovo charged under this as-needed contract. That difference in pricing equates to an additional $74,000, or 53% of the total amount billed by Solnovo. Given the significantly lower pricing obtained under the other RFP, it is likely a lower price could have been obtained if the other pooled contractors had been solicited.

Recommendations:

1.1 For as-needed contracts, the City should prepare a scope-of-work for each project that includes significant elements affecting the success of the project with clear and specific deliverables, milestones and project reporting requirements.

1.2 For as-needed contracts, the City should submit the project scope-of-work to multiple vendors in the pool for proposed pricing to ensure the City is obtaining the best value for the amount paid.

Finding 2. The Department allowed the Contractor to invoice based on prior contract rates.

As noted above, the Department did not solicit pricing from Solnovo prior to awarding the PC replacement project. Under the as-needed contract, Solnovo was supposed to bill based on the positional hourly rates agreed-upon in the contract.

Solnovo instead submitted invoices with just a total price and no indication of hours incurred. The invoices did include the number of PCs replaced, which based on the total amount billed equated to $269 per PC. The charge of $269 per PC is the same rate charged in Solnovo's prior contract with the City. Since the invoice did not include hours worked, it is impossible to determine if Solnovo was charging more than the hourly rates agreed-upon in the current as-need contract.

Recommendation:
2.1 Ensure the contractor is billing based on the rates in the current contract.

Finding 3. The Department had minimal documentation to support contract activities.

Best practices in contract administration include processes to document and support contract activities, issues and resolutions.[1] Without this documentation, the City is at risk should disputes arise over billings, deliverables or other key contract provisions. Regarding the Solnovo contract, the Department provided little documentation to support adequate oversight.

A. The Department prepared a project schedule at the onset of work, but could not provide updated versions. According to the Department, the majority of work coordination, including discussions to address any schedule changes, were communicated verbally and not documented. As a result, we were unable to reconcile invoices against agreed-upon schedules to ensure the City paid for work actually performed.

B. Nine of 11 Solnovo invoices dated between April 2014 and August 2014 were processed for payment by the Department on the same day in September 2014. The Department states Solnovo submitted the bills late, but Solnovo claims they billed timely. The Department does not date stamp or log invoices when received. Fortunately, this issue did not lead to a contract dispute, as the Department did not retain any documentation to defend the timing of the payments.

Recommendations:
3.1 Use standard project schedules to document project progress, allocate resources, assign responsibilities, coordinate work and track issues. This can be a requirement for the contractor, eliminating City time to prepare and update. Both parties should agree to the frequency of schedule updates, along with holding regular meetings to discuss the information in the schedule and agree to its content.

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[1] See Appendix A in this report for examples of best practices in contract administration.

3.2 All contracts should include a clear dispute resolution process that focuses on quickly identifying problems and solutions.

3.3 Any delays to payment schedules, such as failure to timely invoice for work performed or using price terms that differ from contract terms and conditions, should be thoroughly documented and justified by the contract administrator.

PC INVENTORY

Finding 4: Absent a Department prepared scope-of-work, the Contractor submitted a vague proposal providing limited information on expectations and deliverables that resulted in disputed results.

After the completion of the first project, PC replacement, there was a small amount of money remaining on Solnovo's contract. The Department verbally requested a new proposal from Solnovo to perform a PC inventory without providing a scope-of-work. Solnovo submitted a proposal that was very vague, including few specifics on actual work to be performed, deliverables or timelines. By not properly planning or defining this project, the information collected by Solnovo was considered incomplete and ultimately not used by the Department.

    A. Solnovo's proposal is the only scope-of-work and does not clearly define deliverables. The Department states the work provided by Solnovo was unsatisfactory, because Solnovo did not locate all of the assets detailed on the City's list. However, a year later, the City has yet to complete a reconciliation of the data collected by Solnovo to determine the extent of the problem, if one exists. Since the reconciliation was never performed, the Department agreed to pay the full invoice amount in September 2014.

    B. Knowing it had limited staffing resources, the Department failed to plan how or when it would be able to reconcile Solnovo's information to the Department's records. A year later this task has not been completed, making it questionable whether the information still has value, resulting in the Department paying $11,363 for information it never used.

    C. Neither Solnovo 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, most of the communication was done verbally making it impossible to verify actual instructions or sequence of events.

Recommendation:
4.1 All work, including that of City staff, should be thoroughly planned when preparing a project scope to ensure the project can meet all objectives and be finished timely. Proper planning will also reduce the risk of paying for unsatisfactory deliverables or work that is not a priority in completing.

Finding 5. It appears the Department accepted Solnovo's proposed price of $30,000 to perform the inventory, even though there was less than $12,000 remaining on the contract.

The only documentation regarding this project's scope and pricing is Solnovo's proposal, which states it would cost $30,000 to perform the work. At the time of the proposal, there was less than $12,000 remaining on the contract. There is no documentation or evidence stating what pricing the City agreed to or what Solnovo believed they were going to be paid. Solnovo's invoice actually showed charges of $39,000 ($9,000 more than their proposed pricing) with a "discount" to $11,363, matching the exact amount left on the contract. There is no explanation on the invoice for why the discount was given or how it was calculated.

Recommendations:

5.1 Project pricing should be mutually agreed-upon by the City and the contractor prior to the initiation of work with final proposed pricing adequately documented.

5.2 The City should only provide the contractor authorization to proceed with work if adequate funding is available under an existing allowable contract or another source of funding has been established.

5.3 Differences in contract scope or pricing terms should be documented and explained.

OVERALL ISSUES

Finding 6: There is a lack of resources, guidance and training to effectively manage contracts.

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 full-time equivalents (FTEs) has not significantly changed in the past five years in line with this increased demand, resulting in more dependence on contracted technical expertise.

Overseeing service contracts 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 that it is sufficient expertise to effectively manage contracts. However, it is not. Unfortunately, the City has not provided standardized training and guidance to assist departments, such as Technology & Innovation, in managing the increase in service contracts.

A. According to the Department, staff has received periodic outside project management training, however, there is no mechanism to measure whether the training is being properly applied when overseeing contracts. In addition, the Department has not documented any policies or procedures for their staff to follow.

B. It appear the City has not made proper oversight of contracts a priority. There is neither a citywide standardized training on contract administration for its employees nor policies, procedures or guidelines detailing best practices of contract administration, which employees could reference or follow. As a result, departments are expected to initiate their own training and policies, which in this case has been inconsistent. As the City continues to contract-out millions of dollars in services, it is critical that staff have the skills and knowledge to provide adequate oversight of these contracts.

Recommendation:

6.1 The City should recognize the critical need for good contract oversight and develop a standardized citywide training program on contract administration best practices, which include the establishment of policies and procedures for overseeing contracts. This will provide consistency among the departments and provide staff with much needed guidance in this area.

Background

In January 2014, the City Council approved a two-year agreement for an annual aggregate amount of $950,000 to provide professional and technical services on an "as-needed" basis for information technology projects and systems.[2] Sixteen companies were selected based on their pricing, experience and qualifications, as shown in Figure 1.

In March of 2014, the City of Long Beach (City) entered into a $150,000 as-needed contract with Solnovo, Inc. (Solnovo or Contractor) who was selected from the pool of approved companies. Solnovo provides general and technical computer services and is based in Simi Valley, California. Founded in 1989, they have worked for a number of small to medium firms and Fortune 1000 organizations and have premier partnerships with companies like Hewlett Packard and Cisco Systems. The term of the contract is 22 months with two one-year renewal options and included hourly rates by position title. The contract was eventually used for two specific assignments – personal computer (PC) replacement and PC asset inventory.

Figure 1
As-Needed Contract Structure
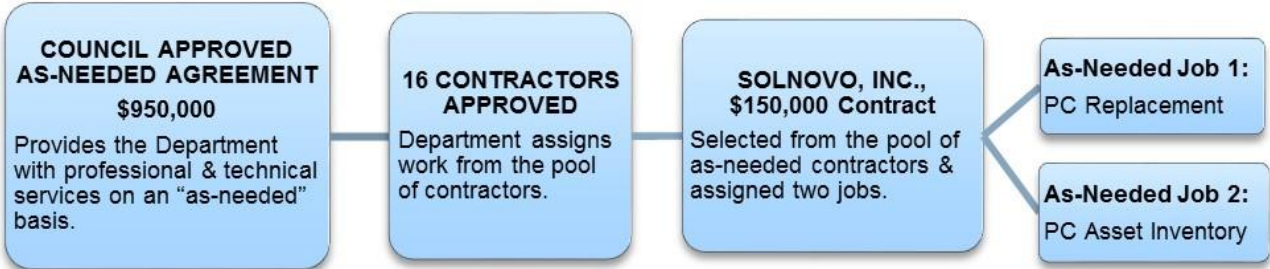
For the first assignment, Solnovo was to assist the Technology & Innovation Department (Department) in preparing for the rollout of Microsoft Office 365 services onto its PCs throughout the City, which was to occur in September 2014.[3] Specifically, Solnovo was to supplement the Department's staff in replacing about 700 PCs throughout the City that were not compatible for the new service. This one-time PC replacement assignment was separate from the Department's ongoing PC Replacement Capital Project, which has been performed by Solnovo for the past nine years.

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[2] The City of Long Beach City Council approved Agreement RFP TS 14-011 in January 2014 in the amount of $950,000 to provide as-needed professional and technical services for a two-year period.
[3] Microsoft Office 365 is a hosted, online version of the traditional installed version of Microsoft Office software. This online service is subscription-based and includes Office, Exchange Online, SharePoint Online, Lync Online and Microsoft Office Web Apps.

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

For the second assignment, Solnovo was to gather information from PC assets throughout the City as part of the City's inventory project. The combined assignments were performed over approximately six months and expended all available funds appropriated to the contract.

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 of Long Beach's (City) monitoring procedures and internal controls over the contract administration, examine related payments and to review the Contractor's compliance with key contract provisions. Although the as-needed contract term was 22-months ending January 2016, all contract funds were expended by September 2014. Therefore, the audit scope was the seven-month period from March 2014 through September 2014, when services were performed.

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.[4]

To perform the work we conducted the following procedures:

I. <u>Procurement Method</u> – 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. <u>Risk Assessment & Control Environment</u> – 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. <u>Payment Processing</u> – 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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[4] *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.[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 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.

[5] *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 as well as the Office of the City Auditor's clarification of the issues discussed in the Management response.

City of Long Beach
Working Together to Serve

Date:	January 26, 2016
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 Solnovo, Inc., 2 of 10**

Thank you for an opportunity to comment on the draft audit of the Contract Administration for the Solnovo, Inc. as-needed professional services contract.

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

The contract under audit was related to the City's implementation of Office 365. The City needed to immediately replace 700 computers that were running on Windows XP, so that they could run Office 365. This was a critical change because there were multiple versions of Microsoft Office implemented around the City that caused inefficiencies and duplicate efforts due to the lack of compatibility between the versions. The majority of these PCs were using Office 2000, which was well past its sunset date and was no longer supported by Microsoft. Implementing Office 365 brought the City onto the current standardized platform and also allowed the City to upgrade to Outlook which was more compatible with newer software applications.

In addition, implementing the software on a more aggressive timeline, reduced the City's implementation costs by $100,000.

Following are our responses to each of the 6 findings:

Finding 1 – The Department did not prepare a project scope-of-work or obtain agreed upon pricing prior to the initiation of the project.

The scope of work for this project was similar to the scope of work for the annual PC replacement project and the pricing was based on the competitively bid per PC rate that was determined during the RFP process for the annual PC replacement contract that was conducted in 2010. The Department used the as-needed professional services contract for purchasing authorization to perform work that was immediately required due to the critical need to implement Office 365 and replace over 700 computers that were still running on Windows XP.

In order to maintain the Office 365 project schedule and meet key milestones, the most expedient and efficient choice was to stay with the current vendor to ensure that the PCs were replaced on time allowing the City to move to a consistent, stable software platform. In addition, none of the other as-needed professional service

firms included a bid for the PC replacement work. A selection of another firm would have required additional training and time to onboard a new firm resulting in additional costs. Staying with the existing vendor allowed the City to meet the aggressive implementation schedule required by Microsoft. In doing so, our systems integrator received a $100,000 credit that was passed through to the City reducing the overall cost for the project.

Finding 2 – The Department allowed the Contractor to invoice based on prior contract rates.

In 2010, the City competitively bid the PC replacement contract to establish a per PC rate that was used in this contract with Solnovo. In March 2015, when the City selected an alternate vendor, the per PC replacement rate decreased due to the new vendor's ability to execute the PC replacement process more efficiently with a process that was not available in 2014.

Finding 3 – The Department had minimal documentation to support contract activities.

Although the quality of documentation could be improved, staff had been working with Solnovo for several years, and had been having daily meetings to discuss project status and update the list of PCs to be replaced based on changing customer availability.

In late 2014, the Department went out to bid for PC Replacement Services and awarded the contract to a different vendor in early 2015. This new vendor provides detailed biweekly updates on project status. In addition, the supervisor and staff members meet with the vendor on a biweekly basis to discuss project status. These process improvements were requested in order to improve inefficiencies with the previous contractor.

Finding 4 – Absent a Department prepared scope-of-work, the Contractor submitted a vague proposal providing limited information on expectations and deliverables that resulted in disputed results.

While the scope of work and the proposal was based on the Contractor using experienced staff that were familiar with the City's inventory processes, it was the resignation of the vendor's key staff member that resulted in the inventory project not being completed to the City's satisfaction. This project brought to light problems with the age of the current software and its incompatibility with current inventory management tools.

Due to the problems with this project, the Department requested and was granted budget authority to upgrade the more than a decade old version of the service management software that tracks the department's inventory. Management has also been working with staff to improve the inventory controls and reconciliation processes.

Finding 5 – It appears the Department accepted Solnovo's proposed price of $30,000 to perform the inventory, even though there was less than $12,000 remaining on the contract.

Management negotiated with the vendor to complete the inventory project for $11,363. The vendor agreed to complete the project for this lower rate before the project was ever started. This negotiation saved the City over $18,000 over the vendor's proposed price.

Finding 6 – There is a lack of resources, guidance and training to effectively manage contracts.

Management agrees that there is a lack of resources, guidance and training to effectively manage contracts in this area. The Manager overseeing this area was moved to another department in May 2013, and the responsibilities were added to the Infrastructure Services Bureau Manager. In addition, the Supervisor position overseeing the Asset Management area was not replaced when the current incumbent retired due to budget reductions in 2012. The Department also reallocated two positions to focus on Desktop Support during the budget reductions over the last 10 years. There is currently one part-time supervisor and one Systems Support Specialist and one contractor performing the Asset Management function.

Over the last 10 years, the Department has had to reduce 25 FTE's to meet budget reduction targets. These cuts have had a significant impact on the ability of TI staff to serve the increasingly complex technology needs of the City. The cost of restoring these positions would be just over $3.4 million.

The Department is currently recruiting for a Customer Services Bureau Manager and has been working with consultants to supplement staffing and improve the business processes surrounding asset management. The Department is also preparing a RFP to replace the software used to manage service management and inventory requests. We expect to have the software implemented within the year.

Should you have any questions, please contact Bryan Sastokas at 8-6234.

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

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

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	For as-needed contracts, the City should prepare a scope-of-work for each project that includes significant elements affecting the success of the project with clear and specific deliverables, milestones and project reporting requirements.	H	3	Agree	TI	Management agrees that the City should prepare a scope of work with adequate detail. The Department is currently developing a standardized project management protocol to be used across the department. The department is also preparing a RFP for project management software	6 months
1.2	For as-needed contracts, the City should submit the project scope-of-work to multiple vendors in the pool for proposed pricing to ensure the City is obtaining the best value for the amount paid.	H	3	Agree	TI	In general, management agrees that the City should submit the project scope of work to multiple vendors. However, in this case, management did not have sufficent time to submit the project scope of work to the multiple vendors in the pool because of the timing of the project and the additional time it would have taken to train a new vendor. The existing vendor was familiar with the City's processes and locations and was able to immediately focus on the project. It would have taken several months to train a new vendor and that would have required extensive time from management, when the existing role was vacant.	Immediate - when appropriate
2.1	Ensure the contractor is billing based on the rates in the current contract.	H	3	Agree	TI	We agree that billing rates should be as outlined in the contract, unless the type of work was not specifically delineated in the contract. In this case, the City's costs were minimized by paying for each device installed rather than paying an hourly consulting rate. Paying for each device ensured that the contractor was focused on staying productive and meeting the timelines for the project. For the inventory project, the contractor voluntarily agreed to reduce the rates for the project.	Immediate
3.1	Use standard project schedules to document project progress, allocate resources, assign responsibilities, coordinate work and track issues. This can be a requirement for the contractor, eliminating City time to prepare and update. Both parties should agree to the frequency of schedule updates, along with holding regular meetings to discuss the information in the schedule and agree to its content.	H	3	Agree	TI	TI is currently developing a standardized project management protocol to be used across the department. Currently there is only extensive project documentation for larger projects.	6 months

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

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
3.2	All contracts should include a clear dispute resolution process that focuses on quickly identifying problems and solutions.	H	4	Disagree	TI	Management will hold the contractor to the agreed upon scope of work in the contract.	N/A
3.3	Any delays to payment schedules, such as failure to timely invoice for work performed or using price terms that differ from contract terms and conditions, should be thoroughly documented and justified by the contract administrator.	M	4	Agree	TI	Management agrees with this recommendation.	Immediate
4.1	All work, including that of City staff, should be thoroughly planned when preparing a project scope to ensure the project can meet all objectives and be finished timely. Proper planning will also reduce the risk of paying for unsatisfactory deliverables or work that is not a priority in completing.	H	4	Agree	TI	Management agrees with this recommendation. Due to staffing limitations, there is not always sufficient time to prepare extensive documentation.	Immediate

MANAGEMENT RESPONSE AND ACTION PLAN

Technology and Innovation Department
Contract Administration Audit: SOLNOVO, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
5.1	Project pricing should be mutually agreed-upon by the City and the contractor prior to the initiation of work with final proposed pricing adequately documented.	M	5	Agree	TI	Management agrees that project pricing should be mutually agreed upon by the City and the contractor prior to the initiation of work with final proposed pricing adequately documented.	Immediate
5.2	The City should only provide the contractor authorization to proceed with work if adequate funding is available under an existing allowable contract or another source of funding has been established.	H	5	Agree	TI	Management agrees with this recommendation. In this case, Management fully disclosed to the vendor that we only had funding for $11,363 and the contractor agreed to complete the work for this reduced price.	Immediate
5.3	Differences in contract scope or pricing terms should be documented and explained.	M	5	Agree	TI	TI will work with management team to ensure that any changes to contract scope or pricing terms are documented and explained.	Immediate
6.1	The City should recognize the critical need for good contract oversight and develop a standardized citywide training program on contract administration best practices, which include the establishment of policies and procedures for overseeing contracts. This will provide consistency among the departments and provide staff with much needed guidance in this area.	H	5	Agree	Citywide	TI will work with Financial Management to follow Citywide policies and to attend training when it is developed.	TBD

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

Date: February 1, 2016

To: Bryan M. Sastokas, Chief Information Officer, Technology
              & Innovation

              Patrick H. West, City Manager

From: Laura Doud, City Auditor *ld*

Subject: Clarification of Issues in Management Comments for the
              Contract Administration Audit of Solnovo, Inc.

This Office has committed to an audit process that fosters open and honest communication during every project. We emphasize at the Entrance Conference of every audit the importance of both our Office and the Department sharing information. During the audit, we are conscientious to keep the lines of communication open with the Department and ensure all potential issues are discussed and feedback requested. We even hold a Closeout Meeting at the end of the project to review the issues previously discussed and listen to any new Department concerns. The entire process is based on ensuring a transparent process where both our Office and the Department are fully aware of the issues and neither party is surprised about the information included in the report or management's response.

Therefore, it is disconcerting to receive management's response that includes new information related to the report findings that was never provided or communicated to us during the audit, even though it was specifically requested. For example:

- Regarding Finding 1, management states "Staying with the existing vendor allowed the City to meet the aggressive implementation schedule required by Microsoft. In doing so, our systems integrator received a $100,000 credit that was passed through to the City reducing the overall cost for the project." My staff requested a documented and updated implementation/ project schedule for Solnovo, Inc.'s work. The Department stated, on more than one occasion, that it did not exist. In addition, there was never any mention that the work of Solnovo, Inc. directly contributed to another project's cost savings because Solnovo, Inc. was able to meet project deadlines.

- In Finding 5, the Department says "Management negotiated with the vendor to complete the inventory project for $11,363. The vendor agreed to complete the project for this lower rate before

the project was ever started." We repeatedly requested information from the Department on how the proposed price of $30,000 was reduced to $11,363. The Department never responded to our inquiries.

These are just two examples of information provided in Management's Response to the audit that contradict conversations and information provided by the Department during the audit. If we had been given this information, we would have performed the necessary testing to determine if these statements are accurate. Also, in the Management Response and Action Plan Form, the Department agreed with all but one of the recommendations; however, the three pages of narrative accompanying the Form seem to indicate a different position resulting in confusion for the reader.

Overall, the Department states that the familiarity with Solnovo, Inc. was their main reason for selecting the firm for this project and, because they were familiar with their work and staff, it was not necessary to obtain competitive pricing or document project meetings and issues. It is these long-term relationships with vendors that attributes to a high level of potential fraud. If the City accepts pricing without bidding and bypasses documenting key project components and processes solely based on the "trust" it has with the vendor, the City exposes itself to overpayment of services and liability should project problems result.

Good contract oversight, as detailed in Appendix A of the report, increases the City's assurance that it is receiving the appropriate goods and services at a fair price and in a timely and efficient manner, while reducing the risk of liability due to disagreements, poor performance, fraud or mismanagement.