



LAURA DOUD

# **Long Beach City Auditor's Office**

## **Contract Administration Audit Limited Scope Review Report 6 of 10**

### **Graffiti Protective Coatings, Inc.**

**June 7, 2016**

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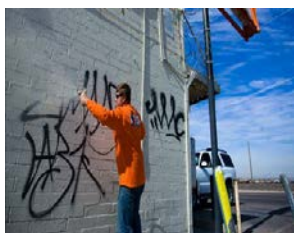
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# Executive Summary

*This is Report 6 of 10 in a series of limited scope audits of City contracts.*



*The City's reliance on GPC's data without validation reduces assurance that the City receives the services it is paying for.*

*A contract interim agreement of roughly \$250,000 never received City Council approval.*

This report includes the results of a limited scope review of contract 32952 between the City of Long Beach (City) and Graffiti Protective Coatings, Inc. (GPC or Contractor). It is the sixth of ten contract audits reporting on the adequacy of the City's monitoring procedures and internal controls in the administration of contracts. A summary report that compiles the results of the ten individual contract audits will be issued separately.

The Public Services Bureau within the Department of Public Works (Department) is the main administrator of the Graffiti Removal Program and contracts with GPC, paying more than \$1.07 million annually, to abate graffiti citywide. All incidents and abatement actions are captured in real time in GPC's software system called App-Order™. This information is used by GPC to calculate abatement fees and support their monthly invoices. GPC removes graffiti from about 89,000 sites annually, with nearly 90% of incidents identified by GPC technicians out in the field.

With over 7,000 graffiti sites abated each month, City staff are not able to validate every workorder that is entered into App-Order™, and instead rely on summary data from the system to accurately support the Contractor's charges. However, there appears to be unlimited system access allowing any user to modify or delete data and no reporting to detect this type of activity. This places the data's reliability into question. As a result, the City has no assurance it is billed and is paying the correct amount for the services rendered.

We also found patterns in the handling of the contract renewal that indicate a lack of planning and poor administrative oversight of corresponding purchase orders and time of payments. Both the current and prior contracts with GPC were allowed to expire without a new contract in place. This resulted in poorly executed interim practices that included not obtaining City Council approval for services exceeding \$250,000 and payments being charged to incorrect contract terms.<sup>1</sup>

Good contract oversight is more than assuring work is assigned and payments are executed. Graffiti abatement within the City is critical to addressing conditions of blight and deterring crime. The City should ensure resources are maximized by analyzing the App-Order™ data and thoroughly planning contract renewals so they are timely, meet the City's current needs, and are in compliance with the City's purchasing guidelines.

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

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<sup>1</sup> Subsequent to the end of this audit, the Department received approval from the City Council on May 10, 2016, to increase the interim BPO to \$675,000 and extend the term through July 31, 2016. The Council Report requesting this action incorrectly states the contract expired April 8, 2016 rather than January 21, 2016.

# Results & Recommendations

*The City relies on data without validation and has no assurance charges billed and paid are accurate.*

The City of Long Beach (City) pays Graffiti Protective Coating, Inc. (GPC or Contractor) more than \$1.07 million each year to abate graffiti citywide. A monthly average of 7,000 incidents are recorded into GPC's App-Order™ system, which tracks each workorder and the abatement action taken.

The City relies on the data in GPC's system without validating its accuracy. The system appears to have no user access controls, allowing anyone entering information the ability to modify key data fields without detection. This, combined with limited production of system reports and analysis of system data, provides the City no assurance it is paying for services actually rendered.

In addition, the City has allowed the contract to expire twice without a new contract or properly funded interim agreement in place. Invoices are not being fully paid or posted to the correct contract term. The current contract extension is worth over \$250,000 but never went to City Council for approval.

Throughout the City, our audits have found that most contracts are administered manually. GPC's App-Order™ system provides the City the opportunity to monitor activity and analyze data using technology to ensure resources are allocated appropriately. In order to thoroughly take advantage of the technology, the City needs to ensure the data's reliability and identify methods to effectively evaluate the data.

## ***Finding 1. The City relies on the Contractor's data, but does not validate it.***

The majority of graffiti incidents, 90%, are reported by GPC's technicians who are out in the field daily.<sup>2</sup> Using smartphones, the technicians capture all workorder information used to calculate charges and process through App-Order™. Other users of the App-Order™ system include City employees reporting graffiti through the Go Long Beach App, the graffiti hotline, call-ins and emails. The City relies on the App-Order™ system data without validating its accuracy even though the data's reliability is questionable due to a lack of system access controls and limited reporting to monitor system activity.

### **A. System user access appears to be unlimited, and there are no system edit reports to capture system data modifications.**

- i. Select City and GPC staff are provided access to GPC's App-Order™ system that allows them the ability to add, edit or delete workorders. We were unable to obtain a report which sufficiently details which fields within App-Order™ each user has the ability to modify or delete. However, based on conversations with City staff, all users likely have the same access, which allows them to change or delete data in any field. This means data used to calculate charges can be easily manipulated and it would be difficult, if not impossible, to track.
- ii. According to City staff, App-Order™ does not provide System Edit Reports indicating when key data fields have been deleted or modified. Lacking such a report, the City is unable to validate whether the data and the amount billed by the Contractor is correct.

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<sup>2</sup> Monday through Friday with Saturday service recently added.



**B. The City relies on system data but does not perform analysis to reasonably validate the data or monitor incident trends.**

Included with the Contractor's monthly invoice is a summary workorder report generated from App-Order™ that only lists the total number of graffiti sites and their respective square footage by removal method, along with their associated cost of removal. The City accepts this summary information as sufficient to support the charges, and no further analysis is performed to validate the data's accuracy. The monthly workorder volume, averaging around 7,000 incidents, makes it inefficient and time consuming to verify each workorder. However, the City could perform general analysis to ascertain the reasonableness of the data.

For example, we performed analysis on the average charge per incident to compare to the contract rate of \$0.08 per square foot or a minimum of \$12 per incident (workorder). For the selected sample of workorders reviewed during the three year term of the contract, nearly 100% of workorders were charged the minimum rate of \$12. Therefore, the total invoice amount divided by the number of workorders should agree to the minimum rate of \$12. However, as shown in Appendix A, over the three-year contract period, 28% of the time this was not the case for Public Works. Particularly in the last year of the contract where 42% of the time this calculation resulted in an amount lower than \$12. This brings into question the reliability of the data.

**Recommendations:**

- 1.1 Evaluate user access to ensure the level of authority/permission assigned to each user is only what is required for the user to perform his/her job responsibilities.**
- 1.2 Develop system edit reports which capture changes to key data fields. Edit reports should be system generated and not allowed to be modified.**
- 1.3 Review edit reports to ensure there is proper justification for any modification to data.**
- 1.4 Develop a process for analyzing system data to ascertain the reasonableness of the information.**

***Finding 2. There is limited production of reports and analysis of system data to identify valuable information on which to make management decisions regarding the deployment of resources.***

Data analytics through good reporting can provide valuable information for management to make sound business decisions, such as where to allocate limited resources. However, the City does not consistently review system data to identify trends or patterns to help ensure resources are allocated to areas most in need. For example:

- i. By requesting data from the system, we were able to determine that 90% of the workorders were generated by the GPC field technicians, and Districts 1, 6 and 9 had the most incidents of graffiti. To ensure funds for graffiti abatement are maximized, the Department could use this type of data to ascertain the placement of technicians in the field. In addition, monitoring data trends and patterns alerts staff of any data inconsistencies.
- ii. The data indicates that only about 8% of the workorders are generated by the public using the GO Long Beach app. Additional promotion of the GO Long Beach app, especially in the above noted high-incident Districts, could reduce the length of time before graffiti is spotted by the field technician.

**Recommendations:**

- 2.1 Expand system reporting to provide the City with information about the overall operations of the program.**
- 2.2 Consider additional promotion of the GO Long Beach app for reporting graffiti.**

***Finding 3. Poor planning contributes to contracts not renewed timely and insufficient interim agreements being used until renewal process is complete.***

According to City staff, the Department overseeing the contract is responsible for preparing the scope-of-work and informing the Purchasing Division within the Department of Financial Management that the Request for Proposal (RFP) process needs to be initiated. Our audit found that the Department was not starting the RFP process early enough to have new contracts in place prior to the expiration of the existing contracts. Documentation reviewed during the audit indicates the interim blanket purchase orders (BPO) were initiated to pay for services until the RFP process was completed but were not sent to City Council for approval.

**A. Contracts were not renewed timely and extension of services was not approved by City Council.**

Our audit found that the last two contracts for graffiti abatement services with GPC expired without a new service contract in place.

- i. The City had a contract with GPC that expired November 1, 2012, and an interim BPO was established until the new contract became effective on January 22, 2013. The new contract was based on pricing from Orange County's contract with GPC.<sup>3</sup> No RFP process was initiated. If it had been, the delay between contracts would have been significantly longer.
- ii. The latest contract expired January 21, 2016 and an interim BPO was established. According to a memorandum dated February 9, 2016 (19 days after the contract had expired), GPC was asked and agreed to enter into an interim BPO for three months ending April 30, 2016. The entire agreement is as follows:

*"The City of Long Beach is requesting to create an interim purchase order with your company for providing graffiti removal services. The current blanket purchase order BPLB13000019 expired on 1/21/16.*

*The City requests that you hold your prices for three months until 4/30/16, or until a new contract/po is in place. If you will hold these rates until 4/30/16, please sign and scan and e-mail, or fax a copy of your acceptance. If you will only agree to an interim on the condition of price increases, please sign and check the field below and attach a price change list."*

GPC agreed to hold their pricing. This interim BPO agreement is vague and lacks key terms and information such as:

- Reference to the contract number.
- Reference to extending any other terms or conditions of the contract other than pricing.
- Providing a cap on the amount of services that can be charged. While the pricing per incident is a minimum charge of \$12 or \$.08 per square foot (whichever is more), without a price cap GPC could bill for unlimited work.

As of April 11, 2016, the RFP for graffiti abatement services had yet to be posted on the City's website. It will not be possible to initiate a new contract before the interim BPO expires on April 30, 2016, which will require yet another extension.

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<sup>3</sup> This method of procurement occurs when one government agency receives the same terms and pricing by a vendor that has been afforded to another agency. It is generally referred to as "piggybacking" on an existing contract and allows the receiving government entity to save time and resources compared to initiating the full RFP process.

- iii. For the contract that expired on January 21, 2016, a request to extend the contract BPO to April 30, 2016, was not initiated for City Council approval. GPC had been averaging more than \$85,000 per month in billings to the City. Therefore, the three-month interim BPO, assuming services continued as normal, would be valued at more than \$250,000. Current City purchasing guidelines require all procurements over \$200,000 to be taken to City Council for approval.

## **B. Lack of a comprehensive contract database.**

The City currently utilizes the file management systems Legistar and Contracts Online to manage contracts that are processed by the City Clerk.<sup>4</sup> Contracts that are not processed by the City Clerk, and those held with the Harbor and Water Departments, are managed directly by the departments in which they originated. Legistar and Contracts Online are only used as storage applications and cannot be used to actively manage the administration of the contracts. For example, there is no standardized reporting and these systems only allow inquiry of contracts by Council date, vendor or contract number. Inquiries for key information such as term dates, insurance dates or even department are not possible.

Without an effective citywide database to actively manage contracts, including key terms, conditions and renewal planning, there is no method to account for all contracts within the City. It also requires individual departments, such as Public Works, to devise and manage a system to track contract information, which is not being comprehensively done. This results in a high risk that contracts are not being properly monitored or renewed timely.

### **Recommendations:**

- 3.1 **Invest in a contract monitoring system that allows the City to capture all city contracts, including but not limited to term/expiration dates, award authority, associated BPO information, insurance expirations and other key terms and conditions. The system should possess alerts, reporting or other methods to effectively plan for contract expirations to ensure sufficient time is allotted to renew or bid for new contracts.**
- 3.2 **Develop a process to ensure contracts are renewed timely.**
- 3.3 **Ensure any extension of existing contracts that would result in payment by the City of more than \$200,000 should be taken to City Council for approval as per City procurement guidelines.**
- 3.4 **Ensure that expired contracts which the City wants to keep in effect until the RFP process is complete have appropriate documentation extending contract terms and key conditions. Use of an interim BPO without a contract amendment should only be considered when the amount of the term and pricing are immaterial.**

### ***Finding 4. The City paid nearly \$150,000 for services performed outside the current contract term, and remaining contract funds appear insufficient to pay for services performed.***

The delays in contract renewals, discussed in *Finding 3* above, created issues with sufficient funding to pay for services performed. Little consideration or planning was done to ensure the interim BPO amounts were appropriate. Invoices were held and charged to future contracts, resulting in contracts not having enough funds to pay final invoices. This issue, depicted in Figure 1 below, makes it difficult to determine when contract authority has been exceeded.

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<sup>4</sup> Legistar is a document management and information retrieval system designed specifically to support the legislative process in cities, towns and counties. Contracts Online is a limited document management system for some City contracts, agreement, leases and certain permits.

#### A. Payment made for services outside the contract term.

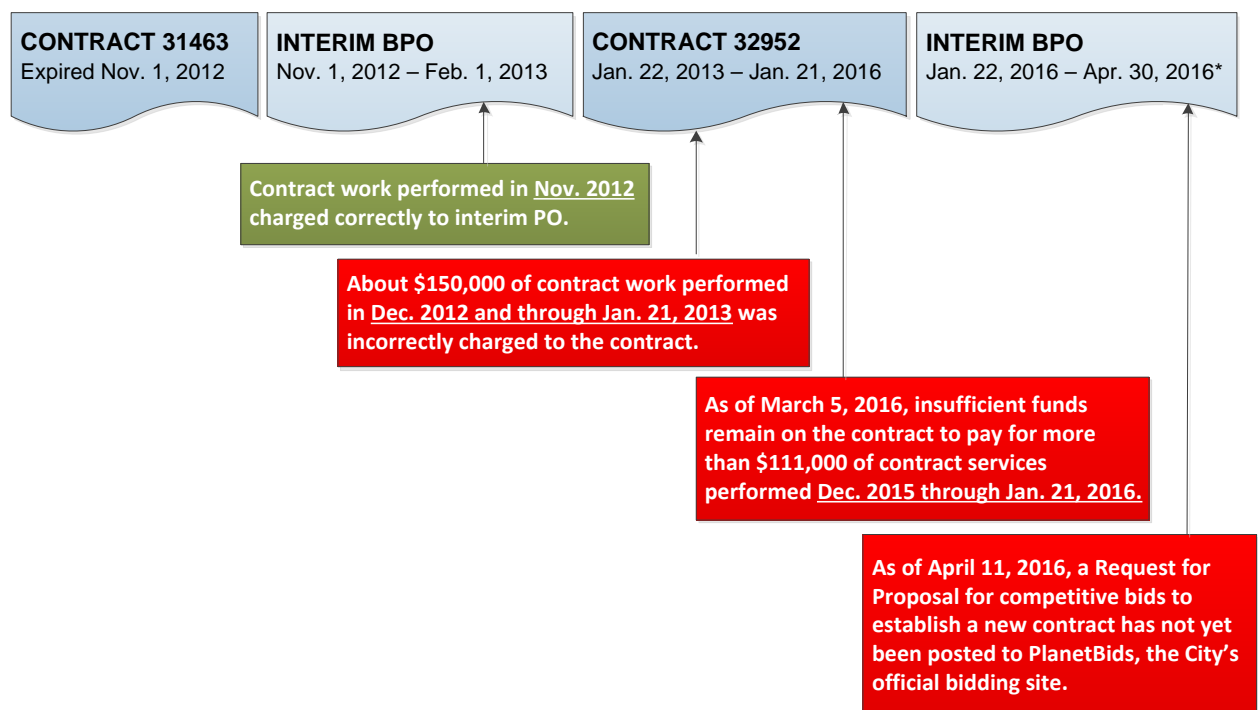
For the contract that expired November 1, 2012, an interim BPO of \$95,000 was issued and intended to pay for services during the period of November 1, 2012 through February 1, 2013. As noted earlier, three months of graffiti abatement services would cost well over \$250,000. The interim amount of \$95,000 was clearly insufficient. As a result, only November services were charged correctly to the interim BPO. The balance of services for December 2012 and January 2013, totaling nearly \$150,000, were incorrectly charged to the new contract that became effective January 22, 2013.

#### B. Insufficient contract funds and authority.

As of March 1, 2016, there was approximately \$25,500 remaining on the contract BPO that expired January 21, 2016. We found two invoices, totaling approximately \$137,000, for services performed in December 2015 and January 2016 that applied to this BPO, but had not been paid due to only \$25,500 remaining on the BPO. A “revised” December invoice of \$25,490 was subsequently paid on March 31, 2016, using the remaining funds available on the BPO. However, the remaining \$48,000 from the original December invoice and January’s invoice of \$63,000 remain outstanding. It is not clear how these invoices will be processed for payment.

An interim BPO for \$100,000 was created on February 9, 2016, and back-dated to January 22, 2016 (right after the contract had expired). The interim BPO is for three months and is roughly \$155,000 short of what is needed to pay for services during this time based on the average work performed monthly.<sup>5</sup>

**Figure 1**  
**Timeline of Contracts and Interim Agreements**



<sup>5</sup> Subsequent to the end of this audit, the Department received approval from the City Council on May 10, 2016, to increase the interim BPO to \$675,000 and extend the term through July 31, 2016. The Council Report requesting this action incorrectly states the contract expired April 8, 2016 rather than January 21, 2016.

The payment of invoices applied to the wrong BPO, combined with interim BPO amounts that are not reflective of the level of services to be performed, results in the City paying more than was approved by City Council. Poor contract administration over payments and renewals appears to be an on-going issue as it has occurred over two contract terms. Unless the Department increases the contract and interim BPOs to the proper amounts, outstanding invoices could be continually charged to future contracts, and this issue will never be resolved.

**Recommendations:**

- 4.1 Ensure interim BPO amounts reflect reasonable payment for services to be rendered.**
- 4.2 Ensure payments are made to the appropriate contract period.**
- 4.3 Do not authorize work, or allow Contractor to continue performing existing work, unless a valid contract or agreement is in place.**

***Finding 5. Lack of resources, guidance and training on how to effectively manage a contract.***

Citywide there is no standardized training on contract administration for employees, which provides a consistent approach to monitoring contracts. In addition, there is a lack of policies, procedures or guidelines detailing best practices of contract administration that employees could reference or follow. This increases the risk of project problems, wasted staff and Contractor resources and time, and insufficient documentation to support contract disputes.

**Recommendations:**

- 5.1 Develop a training program on contract administration best practices. This should be standardized citywide.**
- 5.2 Establish policies and procedures for overseeing contracts. This should be standardized citywide.**

# Background

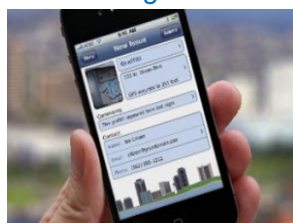
*Removing graffiti helps the City and its neighborhoods look and feel safer.*

As a quality-of-life issue, the City of Long Beach (City) expressly declares graffiti to be a public nuisance, because it creates a condition of blight, ruin or dilapidation. Graffiti is illegal vandalism in the form of unauthorized markings of a structural component or building, including an inscription, word, figure or design that is drawn, painted, scratched or etched.<sup>6</sup> For property and business owners, graffiti deteriorates property value and contributes to higher crime rates.

To address the ongoing problem, the City administers the Graffiti Removal Program (Program), which quickly removes (or abates) as much graffiti as possible within 24 hours of being reported and is offered Citywide at no cost to property owners or tenants. The Program is managed by the Public Services Bureau of the Public Works Department, with assistance from Parks, Recreation and Marine Department staff in the Maintenance Operations Bureau, and the work is performed with contract services provided by Graffiti Protective Coatings, Inc. (GPC or Contractor).

In January 2013, the City entered into a one-year contract with GPC for approximately \$1.07 million, with the option to renew for two additional one-year periods. As a “piggyback” agreement on Orange County’s contract with GPC for graffiti services, a competitive bid process was not needed.<sup>7</sup> The GPC contract recently expired January 21, 2016. A competitive bid for a new contract is in process and is expected to be completed in the next few months. In the meantime, the City has approved an interim blanket purchase order to maintain graffiti removal services through April 30, 2016, pending execution of a new contract.

*App-Order™ facilitates graffiti workorder reporting, tracking and work management.*



The GPC contract provides experienced technicians who patrol the City’s graffiti thoroughfares, hotspots and parks. Using smartphones, wireless technology and web-based software called App-Order™, they timely identify and clean graffiti using a variety of methods, including high quality color-matching paint service. Key workorder information is captured with the smartphone, such as the date, time, location and size of the graffiti site. In addition, pictures are taken of the site before and after the work is performed and all workorder information is transmitted to App-Order™ in real-time.

City staff have the capability of obtaining graffiti data from App-Order™, including workorder status, maps, reports and billing information. In addition, the Program uses graffiti information to assist the Police Department and the City Prosecutor in the tracking of graffiti and for the associated cost of abating to support community restitution claims.

The contract rate is \$0.08 per square foot or a minimum of \$12.00 per site (workorder) and includes a 24-hour turnaround time on service calls.

<sup>6</sup> City of Long Beach, CA Municipal Code Chapter 8.58, *Graffiti Abatement* provides a system to keep privately owned property within the City free of graffiti.

<sup>7</sup> City Charter Section 1802, *Contracts of Other Governmental Agencies*, permits the City to participate in cooperative purchasing with other governmental agencies.



## Expenditures & Number of Sites Abated

Expenditures for the three-year term of the contract total about \$3.26 million, including some invoiced amounts that have not yet been paid for services performed in the last few months of the contract term, as shown in Table 1. Also, for the same period, GPC removed graffiti from an average of over 89,000 sites per year as shown in Table 2.

**Table 1**  
**Expenditures by Contract Year**

	Year 1	Year 2	Year 3*	Total
Public Works	\$ 985,858	\$ 860,320	\$ 921,160	\$ 2,767,338
Parks Recreation & Marine	185,213	158,182	153,824	497,219
<b>Total</b>	<b>\$ 1,171,071</b>	<b>\$ 1,018,502</b>	<b>\$ 1,074,984</b>	<b>\$ 3,264,557</b>

Contract Term: Jan. 22, 2013 - Jan. 21, 2016. Includes invoiced amounts for Public Works for part of Dec. 2015 and Jan. 2016 that are pending payment. Source: City of Long Beach accounting report as of April 2016.

**Table 2**  
**Sites Abated by Contract Year**

	Year 1	Year 2	Year 3*	Total
Public Works	71,568	75,933	80,050	227,551
Parks Recreation & Marine	13,350	13,226	12,917	39,493
<b>Total</b>	<b>84,918</b>	<b>89,159</b>	<b>92,967</b>	<b>267,044</b>

Contract Term: Jan. 22, 2013 - Jan. 21, 2016. Source: GPC App-Order™ system.

\*Data unavailable for the period from Sep. 2015 through Dec. 2015 for Parks, Recreation & Marine. As a result, the number of sites are estimates based on prior year data.

## Graffiti Removal Process

While the majority (90%) of graffiti is identified by GPC technicians in the field, graffiti can also be reported by the public through the City's Go Long Beach app, the Graffiti Hotline or other methods of communication, such as a phone call or email directly to City staff or a Council member. As shown in Figure 2, graffiti identified by field technicians are directly submitted into GPC's App-Order™ system and assigned a workorder, while all other requests are reviewed and validated by City staff in Public Works and Parks, Recreation, and Marine Departments. Once verified, a request is assigned a workorder in App-Order™ and assigned to a technician based on location. Upon completion of the work, technicians can close the workorder by uploading workorder status directly to App-Order™ using their smartphones as described earlier. The App-Order™ system serves as a database of graffiti requests and a tool to manage the graffiti workload.

## Contractor

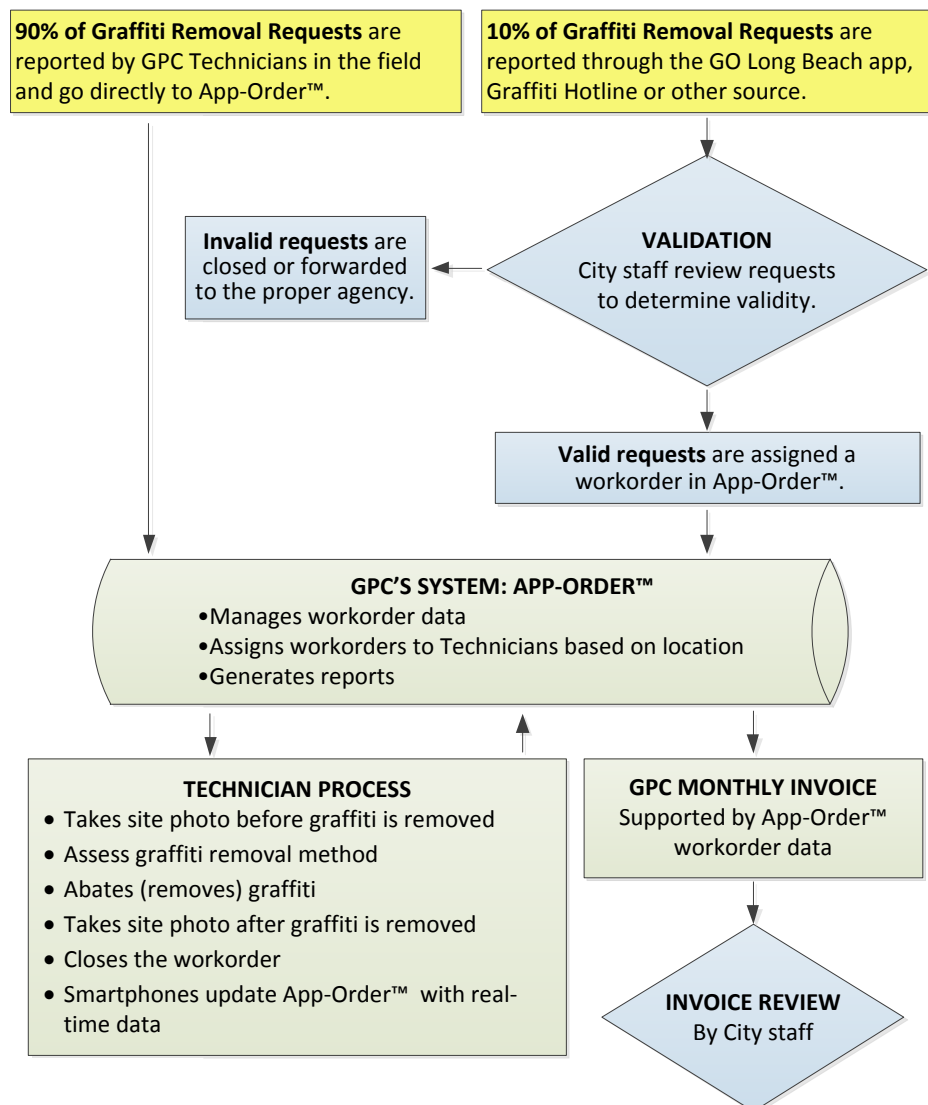
GPC has provided the City with graffiti abatement services for more than 16 years. The firm was initially used on a part-time basis to supplement the City's graffiti removal operations performed by the Community Service Worker Program. In 2006, the Cleaner and Safer Community initiative was introduced to meet the City's goals of improving the quality of life in neighborhoods and enhancing neighborhood economic development efforts and under the initiative, GPC's workload tripled.

Providing service to both the public and private sectors, GPC has been in business for over 18 years and has become one of the largest graffiti removal companies in the world. Based in Southern California, the firm has more than 1,000 public and private clients, including large government agencies.

**Contract Administration**  
*Strong contract oversight policies and procedures can minimize risk exposure and provide increased transparency.*

After the contract is executed, the City is responsible for managing the contract to ensure the Contractor completes the required scope-of-work with quality. This contract is primarily managed by staff in the Public Services Bureau of the Public Works Department, along with staff in the Maintenance Operations Bureau of the Parks, Recreation, and Marine Department. Appendix B provides additional information related to contract administration, including best practices and components of effective contract monitoring.

**Figure 2**  
**Graffiti Abatement Process**





# 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 three-year contract term from January 2013 through January 2016, and included review of relevant operations in the Public Works and Parks, Recreation, and Marine Departments that are involved in the City's Graffiti Removal Program.

We reviewed the contract's terms and conditions along with related records, including procurement documents, legislative text, contract amendments, purchase orders, and change orders. We also reviewed regulatory criteria including the City Charter Article 1800, *Contracts*; and the City's Procurement 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.<sup>8</sup>

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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<sup>8</sup> *Principle and Practices of Public Procurement*, Sept. 2013, by The National Institute of Government Purchasing, Inc. and The Chartered Institute for Purchasing and Supply; and *Components of an Effective Contract Monitoring System*, July 2003, by the State of Georgia Department of Audits and Accounts Performance Audit Operations Division.

# Appendix A

**Table 3**  
**3-Year Workorder Analysis**

	Public Works				Parks, Recreation & Marine			
Billing Period	Invoice Date	Invoice Amount	# of WOs Invoiced	Avg. Cost Per WO	Invoice Date	Invoice Amount	# of WOs Invoiced	Avg. Cost Per WO
Jan 2013	02/05/13	\$ 74,800	5,417	\$14	02/12/13	\$ 15,000	1,125	\$13
Feb	04/08/13	\$ 63,268	5,447	\$12	06/17/13	\$ 12,320	1,027	\$12
Mar	04/08/13	\$ 71,120	6,083	\$12	06/21/13	\$ 13,168	1,097	\$12
Apr	05/18/13	\$ 74,152	6,352	\$12	06/21/13	\$ 13,000	1,083	\$12
May	06/04/13	\$ 71,956	6,196	\$12	06/21/13	\$ 13,220	1,102	\$12
Jun	07/03/13	\$ 68,892	5,887	\$12	07/12/13	\$ 13,320	1,110	\$12
Jul	08/02/13	\$ 72,188	6,127	\$12	08/07/13	\$ 13,716	1,136	\$12
Aug	09/05/13	\$ 72,340	6,113	\$12	09/06/13	\$ 14,700	1,224	\$12
Sep	09/30/13	\$ 75,493	6,398	\$12	09/30/13	\$ 12,860	1,067	\$12
Oct	11/04/13	\$ 79,176	6,854	\$12	11/13/13	\$ 14,292	1,210	\$12
Nov	12/03/13	\$ 78,563	5,261	\$15	12/10/13	\$ 12,924	1,082	\$12
Dec	01/08/14	\$ 64,194	5,433	\$12	01/02/14	\$ 13,060	1,087	\$12
Jan 2014	02/07/14	\$ 68,536	6,332	\$11	02/17/14	\$ 12,744	1,064	\$12
Feb	03/07/14	\$ 65,512	5,599	\$12	03/10/14	\$ 10,056	838	\$12
Mar	04/03/14	\$ 48,628	5,723	\$8	04/22/14	\$ 15,048	1,255	\$12
Apr	05/27/14	\$ 71,823	7,098	\$10	05/02/14	\$ 13,128	1,109	\$12
May	06/09/14	\$ 79,104	6,793	\$12	06/02/14	\$ 13,164	1,097	\$12
Jun	07/03/14	\$ 77,787	6,682	\$12	07/03/14	\$ 14,088	1,172	\$12
Jul	08/06/14	\$ 82,235	7,074	\$12	08/05/14	\$ 14,088	1,234	\$11
Aug	09/08/14	\$ 77,325	6,586	\$12	09/02/14	\$ 13,904	1,158	\$12
Sep	10/07/14	\$ 75,630	6,510	\$12	10/06/14	\$ 10,692	892	\$12
Oct	11/10/14	\$ 81,278	6,975	\$12	11/06/14	\$ 14,392	1,197	\$12
Nov	12/17/14	\$ 65,334	5,601	\$12	12/04/14	\$ 12,820	1,068	\$12
Dec	01/16/15	\$ 63,639	5,436	\$12	01/14/15	\$ 13,692	1,142	\$12
Jan 2015	02/16/15	\$ 73,686	6,332	\$12	02/09/15	\$ 13,284	1,110	\$12
Feb	03/13/15	\$ 71,692	6,224	\$12	03/10/15	\$ 13,824	1,154	\$12
Mar	04/13/15	\$ 76,161	6,635	\$11	04/09/15	\$ 14,724	1,229	\$12
Apr	05/13/15	\$ 84,470	7,303	\$12	05/13/15	\$ 13,468	1,121	\$12
May	06/19/15	\$ 68,827	6,064	\$11	06/03/15	\$ 12,288	1,026	\$12
Jun	07/02/15	\$ 79,916	6,870	\$12	07/06/15	\$ 14,100	1,179	\$12
Jul	08/14/15	\$ 78,636	6,813	\$12	08/14/15	\$ 12,984	1,084	\$12
Aug	09/09/15	\$ 78,874	6,625	\$12	09/07/15	\$ 11,844	640	\$19
Sep	10/05/15	\$ 80,627	6,829	\$12	Data not available*			
Oct	11/13/15	\$ 77,654	6,804	\$11				
Nov	12/08/15	\$ 74,892	6,600	\$11				
Dec	01/20/16	\$ 73,702	6,545	\$11				
Percent of invoices that do not agree to the minimum rate of \$12.00 per workorder.								
				28%				9%
Percent of invoices in YEAR 3 that were lower than the minimum rate of \$12.00 per workorder.								
				42%				0%
*As of April 2016								

## Appendix B

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.<sup>9</sup> Proper oversight and monitoring creates a strong control environment that can deter fraud, waste, and abuse. As shown in Figure 3, components of an effective contract monitoring system include an ethical tone that starts at the top of the organization, ongoing monitoring, and thorough recordkeeping.

**Figure 3**  
**Best Practices in Contract Management**

TONE AT THE TOP	
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 (SOW) often is the City's primary means of communicating these expectations. Ensure the SOW includes: <ul style="list-style-type: none"> <li>• Clear expectations &amp; deliverables that are defined and specific.</li> <li>• A plan that considers all significant issues that may affect the success of the project.</li> <li>• A contingency plan to address how the agency would respond in the event of an interruption of service delivery.</li> <li>• A dispute resolution procedure that requires timely resolution.</li> </ul>	VIII. Evaluate the contractor's performance and provide feedback. <ul style="list-style-type: none"> <li>• Focus on outputs and outcomes that assess some aspect of the effect, result, or quality of the service.</li> </ul>
VI. Use standard project schedules to document project progress, responsibilities, timing, and problems. <ul style="list-style-type: none"> <li>• Hold regular meetings to discuss the information in the schedule and agreement on changes. Agree to the frequency of updates.</li> </ul>	IX. Contract files are organized and complete. Records are critical should any contract dispute occur. Items to include: <ul style="list-style-type: none"> <li>• Method of evaluation and award. Maintain a copy of the contract, modifications, and amendments; as well as insurance records.</li> <li>• All contract activities, including meetings, communications, issues, and agreed-upon changes or resolution.</li> </ul>
VII. Perform onsite monitoring to ensure the contractor's compliance. <ul style="list-style-type: none"> <li>• Visits can verify actual performance against scheduled or reported performance and ensure the contractor is dedicating sufficient resources and appropriate personnel.</li> </ul>	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.

<sup>9</sup> *Components of an Effective Contract Monitoring System*, July 2003, by the State of Georgia Department of Audits and Accounts Performance Audit Operations Division.

# Management Comments

Management's response begins on the following page.



## City of Long Beach

Working Together to Serve

## Memorandum

**Date:** May 31, 2016

**To:** Patrick H. West, City Manager *PWest*

**From:** *CAB* Craig A. Beck, Director of Public Works

**For:** Laura L. Doud, City Auditor

**Subject:** Graffiti Protective Coatings Contract Draft Audit

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Thank you for the opportunity to comment on the draft Graffiti Protective Coatings Audit. All of management's responses are within the backdrop of providing appropriate controls balanced within available operational resources.

Staff has reviewed and provided input for each of the City Auditor's recommendations and outlined the action plan moving forward. As some of the recommendations involve citywide consideration, staff collaborated with Financial Management to address these recommendations.

Graffiti is a citywide issue that can significantly impact the quality-of-life for residents in our many neighborhoods. Studies show that when graffiti is quickly eradicated from a location, there are fewer incidents of tagging in the future. City Management supports this approach and strives to have graffiti removed within 48 hours of being reported. Graffiti Protective Coatings (GPC) is the City's current graffiti removal vendor and has consistently provided excellent service. GPC is successful in removing over 90 percent of graffiti within the desired 48-hour window. Staff will frequently assign GPC to work specific focus areas when graffiti hot spots occur. Their proactive approach, and thorough results, have made them a valued partner in keeping Long Beach looking significantly better than many surrounding cities. GPC is by far more reliable, organized, and responsive than previous vendors.

As information, staff issued a new Request for Proposal (RFP) for graffiti removal services on May 5, 2016. A mandatory pre-proposal conference was held on May 12, 2016 to address the questions of vendors in attendance. Proposals are due June 2, 2016. It is anticipated that a recommendation to award a new contract will be sent to the City Council in July. This new agreement will work to incorporate the recommendations identified in the Auditor's report. Additionally, Financial Management is working to develop procedures and associated training with regards to contract management.

I appreciate the City Auditor's level of due diligence reflected in the Graffiti Protective Coatings Contract Audit and will work to implement identified actions. If you should have any questions, please call me at (562) 570-6522.

ATTACHMENT: MANAGEMENT RESPONSE AND ACTION PLAN

CC: PATRICK WEST, CITY MANAGER  
TOM MODICA, ASSISTANT CITY MANAGER  
ARTURO SANCHEZ, DEPUTY CITY MANAGER  
JOHN GROSS, DIRECTOR OF FINANCIAL MANAGEMENT  
JASON MACDONALD, PURCHASING AND BUSINESS SERVICES MANAGER



# MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: Graffiti Protective Coatings, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
1.1	Evaluate user access to ensure the level of authority/permission assigned to each user is only what is required for the user to perform his/her job responsibilities.	H	3	Agree	PW Street Maint. Superintendent (SMS)	The Public Service Bureau (PSB) will work with the successful bidder to ensure appropriate user access.	9/30/2016
1.2	Develop system edit reports which capture changes to key data fields. Edit reports should be system generated and not allowed to be modified.	H	3	Agree	PW SMS	Work with successful bidder to provide tracked edit reports.	10/31/2016
1.3	Review edit reports to ensure there is proper justification for any modification to data.	H	3	Agree	PW SMS	Review edit reports for appropriate justification of data modification.	10/31/2016
1.4	Develop a process for analyzing system data to ascertain the reasonableness of the information.	H	3	Agree	PW SMS	Develop a process to analyze system data to ensure information is reasonable. Graffiti Protective Coatings, Inc. (GPC) takes before and after pictures of all sites. PSB reviews a sample of invoices to verify work was performed.	10/31/2016
2.1	Expand system reporting to provide the City with information about the overall operations of the program.	M	3	Agree	PW SMS	Determine reporting requirements of the overall program.	11/30/2016
2.2	Consider additional promotion of the GO Long Beach app for reporting graffiti.	M	3	Agree	PW SMS	Develop outreach for the Graffiti Abatement Program via smart phone application, email and phone.	11/30/2016
3.1	Invest in a contract monitoring system that allows the City to capture all city contracts, including but not limited to term/expiration dates, award authority, associated BPO information, insurance expirations and other key terms and conditions. The system should possess alerts, reporting or other methods to effectively plan for contract expirations to ensure sufficient time is allotted to renew or bid for new contracts.	H	5	Agree	FM Purchasing	Purchasing is exploring approaches to collect centralized information on purchase contracts and have it available for end user departments. A centralized approach (system) is anticipated in conjunction with the installation of a new financial system (ERP). The exact characteristics of the system have not been determined. It is currently hoped and anticipated that the new approach to contracts, if integrated into the ERP solution, will have no new net costs. However, if done outside the ERP project, it is roughly estimated that this effort would require at least 1 new FTE as well the purchase and ongoing maintenance of a contract monitoring system. This could be a one-time cost of \$60,000 and ongoing costs of a minimum of \$80,000.	ERP Solution targeting 2018



# MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: Graffiti Protective Coatings, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
3.2	Develop a process to ensure contracts are renewed timely.	H	5	Agree	FM Purchasing	Timely contract management is a decentralized departmental responsibility. Purchasing will be exploring some centralized controls (see 3.1) and will develop training and related suggested departmental contract tracking techniques.	ERP Solution targeting 2018
3.3	Ensure any extension of existing contracts that would result in payment by the City of more than \$200,000 should be taken to City Council for approval as per City procurement guidelines.	H	5	Agree	FM Purchasing	This procedure is already in place and an error was made for this transaction. The procedure was not properly implemented. Purchasing should have better tested this BPO to ensure the cost was not likely to go over the \$200,000 limit. Buyers will be reinstructed to test this limit and to always require a purchase amount.	ERP Solution targeting 2018
3.4	Ensure that expired contracts which the City wants to keep in effect until the RFP process is complete have appropriate documentation extending contract terms and key conditions. Use of an interim BPO without a contract amendment should only be considered when the amount of the term and pricing are immaterial.	H	5	Agree	FM Purchasing	Purchasing will implement a standard checklist on a city wide basis to ensure consistency in process to meet contract requirements and ensure dollar limits are not exceeded. For interim BPOs, Purchasing will ensure a contract is in place.	9/30/2016
4.1	Ensure interim BPO amounts reflect reasonable payment for services to be rendered.	H	7	Agree	PW Budget Services Officer / SMS	PSB estimates costs to be incurred during an interim BPO term.	7/30/2016
4.2	Ensure payments are made to the appropriate contract period.	H	7	Agree	PW SMS	Management is now downloading all of the department's BPO information from Simpler Financials ADPICS on a weekly basis. This information includes the contract expiration date and is distributed to each bureau and reviewed to ensure payments are appropriate for the contract period.	Completed
4.3	Do not authorize work, or allow Contractor to continue performing existing work, unless a valid contract or agreement is in place.	H	7	Agree	PW SMS	Management is now providing each bureau BPO information from Simpler Financials ADPICS on a weekly basis. This facilitates the review process to ensure current contracts are in place prior to giving a notice-to-proceed for new or continuing work.	Completed



# MANAGEMENT RESPONSE AND ACTION PLAN

City Manager's Office

Contract Administration Audit: Graffiti Protective Coatings, Inc.

No.	Recommendation	Priority	Page #	Agree or Disagree	Responsible Party	Action Plan / Explanation for Disagreement	Target Date for Implementation
5.1	Develop a training program on contract administration best practices. This should be standardized citywide.	H	7	Agree	FM Purchasing	Training will be improved. The Purchasing Division plans to develop training based on an interim basis until the ERP system is implemented which will provide additional training.	12/31/2016
5.2	Establish policies and procedures for overseeing contracts. This should be standardized citywide.	H	7	Agree	FM Purchasing	This recommendation will be implemented as part of 3.1	ERP Solution targeting 2018

## Priority

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

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

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

**Yellow areas - to be completed by the department**