

City of Austin



**A Report to the
Austin City Council**

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Council Members
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City Auditor**

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FOLLOW-UP AUDIT REPORT

Citywide Contract Management Follow-Up Audit

December 2012



REPORT SUMMARY

We confirmed that Purchasing Office has implemented one of the three recommendations and implementation of the remaining two is underway. However, the Purchasing Officer's current plans do not include establishing a process for conducting periodic reviews of contract monitoring activities within the departments. In addition, the Purchasing Office documents we reviewed comply with best practices for contract management.

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards 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 our 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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December 2012



Audit Report Highlights

Why We Did This Audit

This audit was conducted as part of the Office of the City Auditor's Fiscal Year 2013 Strategic Audit Plan.

The prior audit report included three recommendations aimed at implementing a standardized contract management process, an automated contract management system, and a standard contract monitoring process.

What We Recommend

We did not issue any new recommendations.



For more information on this or any of our reports, email oca_auditor@austintexas.gov

CITYWIDE CONTRACT MANAGEMENT FOLLOW-UP AUDIT

Mayor and Council,

I am pleased to present this follow-up audit on Citywide Contract Management.

BACKGROUND

The Office of the City Auditor issued the Performance Audit of Citywide Contract Management in October 2010. The audit contained three recommendations aimed at implementing a standardized contract management process, an automated contract management system, and a standard contract monitoring process.

OBJECTIVE AND SCOPE

Our follow-up audit addressed the objectives outlined in a City Council resolution, dated January 26, 2012, which directed the City Auditor to:

- Conduct this follow-up audit to confirm whether the City's Purchasing Officer has implemented the three recommendations from the original audit;
- Determine whether updates to three Purchasing Office documents that govern certain contract management activities meet contract management best practices; and determine whether compliance with contract management policies is improving.

The audit scope included the steps taken by the City's Purchasing Officer since 2010 to implement the recommendations and the updated contract management documents included in the City Council Resolution.

WHAT WE FOUND

We found that the Purchasing Office has implemented one of the three recommendations and implementation of the remaining two is underway.

#	Recommendation	Status verified by Auditors
1	Standardized Contract Management Process	Underway
2	Assess Options for an Automated Contract Management System	Implemented
3	Standardized Contract Monitoring	Underway

However, the Purchasing Officer's current plans do not include establishing a process for conducting periodic reviews of contract monitoring activities within the departments. In addition, the Purchasing Office documents we reviewed generally comply with best practices for contract management.

We appreciate the cooperation and assistance we received from the City's Purchasing Officer during this audit.


Kenneth J. Mory, City Auditor

BACKGROUND

In October 2010, the Office of the City Auditor issued an audit report titled Performance Audit of Citywide Contract Management. The original report contained three recommendations aimed at implementing a Standardized Contracting Process, Contract Management System, and Standardized Contract Monitoring.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Follow-Up Audit of Citywide Contract Management was conducted as part of the Office of the City Auditor's Fiscal Year (FY) 2013 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

In addition, City Council Resolution No. 20120126-048, adopted January 26, 2012, directed the Office of the City Auditor to study whether updates to the Purchasing Procedures Manual, Administrative Bulletin 84-07, and the Contract Monitoring Guide meet contract management best practices, and whether compliance with contract management policies is improving.

Objective:

The objective of this audit was to:

- Follow-up on the recommendations from the original audit of Citywide Contract Management, issued in October 2010;
- Determine whether updates to the Purchasing Procedures Manual, Administrative Bulletin 84-07 and the Contract Monitoring Guide meet best management practices; and determine whether compliance with contract management policies is improving.

Scope:

The scope of this audit included:

- The three recommendations and management's action plans from the original report;
- All activity and internal record associated with the implementation of the audit recommendations from October 2010 to November 2012; and
- Updated contract management documents included in City Council Resolution 20120126-048, including the Purchasing Procedures Manual, Administrative Bulletin 84-07, and the Contract Monitoring Guide.

Methodology:

To accomplish our audit objective, we performed the following steps:

- Interviewed key Purchasing Office staff.
- Reviewed documentation supporting implementation status.
- Identified contract management best practices and compared to Purchasing Office documents (Draft Purchasing Procedure Manual, Administrative Bulletin 84-07, and the Contract Monitoring Guide).
- Surveyed financial managers, departmental contract administrators, and monitoring staff within City departments.
- Considered information technology risks and the risks of fraud, waste, and abuse.

AUDIT RESULTS

The October 2010 Performance Audit of Citywide Contract Management included three recommendations, and the City's Purchasing Officer concurred with all three. The recommendations were aimed at standardizing the City's contracting process, developing a contract management system, and standardizing the contract monitoring process.

In September 2012, Purchasing Office management reported to the Controller's Office that one recommendation was implemented and the other two were underway. Based on our work, we verified the status as reported by the Purchasing Office. Exhibit 1 shows the last reported status and verified status for each recommendation. See Appendix B for the full text of the original recommendations, management's responses, and the last reported status for each of the recommendations.

EXHIBIT 1

Verified Status of the Recommendations

#	Summary of Original Recommendations	Last Reported Status by Management	Status Verified by Auditors
1	Standardized Contracting Process	Underway	Underway
2	Assess Options for an Automated Contract Management System	Implemented	Implemented
3	Standardized Contract Monitoring	Underway	Underway

SOURCE: OCA analysis of recommendation implementation status, November 2012

In addition, three documents prepared by the Purchasing Office, including the Draft Purchasing Manual, Administrative Bulletin 84-07, and the Contract Monitoring Guide are generally in compliance with best practices for contract management.

Finding 1: The City's Purchasing Officer has implemented the recommendation to assess options for creating an automated Citywide Contract Management System.

Based on our work, we determined that the Purchasing Office has formally assessed options for creating an automated Citywide Contract Management System, as required by the second recommendation. The Office surveyed departments in April 2012 to obtain information regarding systems currently used in contract monitoring. According to management, the focus will be on leveraging existing technologies, and the internal eCAPRIS capital project reporting and information system has been designated as the system where future contract management enhancements will reside. Purchasing Office management indicated that their goal is to give departments tools to track and monitor contract requirements in a uniform manner.

Finding 2: Implementation of the recommendation for the City's Purchasing Officer to design a standardized contracting process is underway.

Based on our work, we determined that the Purchasing Officer's efforts to implement the first recommendation from the 2010 Performance Audit of Citywide Contract Management are underway. The Purchasing Officer's response to the recommendation proposed an implementation date of October 1, 2011. The recommendation directed the Purchasing Officer to design a standardized contracting process that included:

- a. A comprehensive Contract Monitoring Manual, which should provide a roadmap to guide the contracting process Citywide, and
- b. Clearly defined roles and responsibilities for all parties involved in the contracting process.

The Purchasing Office has developed several contract management documents, including a Contract Monitoring Manual, Contract Administration Guide, and Contract Monitoring Guide. These documents and other contract management documents and templates are available to City departments.

The Purchasing Office also revised and updated Administrative Bulletin 84-07, which establishes the departments and employees of the City that are responsible for and authorized to perform purchasing and contracting activities. The bulletin also clarifies responsibilities relating to City contract management.

Responses from financial managers we surveyed indicate improvements regarding contracting roles and responsibilities. In 2010, only 67% of the financial managers in our survey agreed that roles and responsibilities regarding contract management are clearly documented and well defined. The percent that agree rose to 81% in 2012.

In addition, the Purchasing Office established a requirement for 40 hours of contract management training applicable to all City employees responsible for managing contracts. The Office has provided training for City departments since October 2011. The Office also provides two hours of executive training to City departments. As of November 2012, the Purchasing Office has provided 15 training classes. Roles and responsibilities for contract and purchasing activities are communicated to departments during the training and in team meetings.

The Purchasing Office is now directing its implementation efforts at completing training for all City departments. Management plans to complete the training by fiscal year 2015.

Finding 3: Although implementation of the recommendation to establish a standard contract monitoring process is underway, the Purchasing Officer's current plans do not include implementing part of the recommendation.

Based on our work, we determined that the Purchasing Officer's implementation of the third recommendation is underway. The Officer has established a new Contract Monitoring Unit with two full-time employees and implemented contract management training applicable to all City employees responsible for managing contracts, as described in Finding 2.

The recommendation directed the Purchasing Officer to establish a standard contract monitoring process to ensure the City is receiving all contracted goods and services. Such a system should include:

- a. Communicating policies and procedures to relevant staff to ensure that departments monitor contracts on an ongoing basis;
- b. Providing necessary training to guide contract monitoring staff and establishing a Citywide certification process for all contract monitoring staff; and
- c. Establishing a process for conducting periodic reviews of contract monitoring activities within the departments.

Responsibilities assigned to the Contract Monitoring Unit include conducting contract management training to all City employees responsible for managing contracts. In addition, the City's Purchasing Officer assigned the Unit responsibility for providing contract management guidance and assistance to City departments.

One way the Unit carries out this responsibility is by providing assistance to departments with developing contract monitoring manuals. As of November 2012, the Unit had provided assistance to four City departments through mandatory training sessions. According to the Purchasing Office, two departments that received the training have completed their contract monitoring manuals. The Office also contacts departments to ensure they attend this mandatory training and are developing their contract monitoring manuals.

However, the Purchasing Officer's current plans do not include establishing a process for conducting periodic reviews of contract monitoring activities within the departments. Instead, the Office revised Administrative Bulletin 84-07 to add the following section:

"6. Contracting

a. Departments are responsible for contract monitoring, contract compliance, and contract management activities, as defined in this Administrative Bulletin.

b. The Contract Administration unit of the Purchasing Office is responsible for corporate contract administration activities, as defined in this Administrative Bulletin."

As a result, the City does not have regular monitoring of departmental contract monitoring activities in place, which increases the risk that contracted dollars may not be spent appropriately or effectively.

The Purchasing Officer's response to the recommendation stated that implementation of the training curriculum would be completed within six months to one year, while implementation of the rest of the recommendation would be considered as part of fiscal year 2012 budget development.

Finding 4: The Draft Purchasing Procedures Manual, Administrative Bulletin 84-07, and Contract Monitoring Guide generally comply with best contract management practices.

In addition to our review of the status of our prior recommendations, we reviewed three Purchasing Office documents that govern certain contract management activities to determine whether they meet contract management best practices. Based on our review, the policies, procedures, and responsibilities described in the documents generally comply with contract management best practices, as described in Exhibit 2.

EXHIBIT 2
Documents Reviewed at City Council's Request

Document	Description	Details	Best Practice Components	Generally Complies with Best Practices?
Purchasing Policies and Procedures Manual	The Purchasing Policies and Procedures Manual, drafted by the Purchasing Office, lays out responsibilities and procedures for both the Office and City departments to follow when conducting purchasing activities, including purchases made through contracts.	<ul style="list-style-type: none"> ▪ Establishes uniform procedures that have to be adhered to by the City personnel involved in purchasing activities ▪ Defines authority levels for purchasing and contracting activities, the solicitation methods, and procedures to be followed ▪ Standardizes the procurement activities by setting applicable policies and procedures that have to be adhered to by City staff 	<ul style="list-style-type: none"> ▪ Clearly defining roles, responsibilities, and authority limits ▪ Methods for fairly and objectively choosing the most qualified contractor ▪ Standardizing the City purchasing activities 	Yes
Administrative Bulletin 84-07	The Purchasing Office prepared City of Austin Administrative Bulletin 84-07, titled <i>Purchasing and Contracting Authority and Related City Charter Requirements</i> . The current revision of the Bulletin became effective on April 30, 2011. It establishes the departments and employees of the City that are responsible for and authorized to perform purchasing and contracting activities.	<ul style="list-style-type: none"> ▪ Establishes departments and employees that are responsible for and authorized to perform purchasing and contracting activities as well as their procurement responsibilities ▪ Establishes contract training requirements evidenced by a certificate of completion. 	<ul style="list-style-type: none"> ▪ Roles and responsibilities ▪ Establishing training and certification requirements for purchasing personnel 	Yes

Document	Description	Details	Best Practice Components	Generally Complies with Best Practices?
Contract Monitoring Guide	The Purchasing Office Contract Monitoring Manual became effective in April 2012. The purpose of the guide is to standardize the monitoring process and procedures for planning, communication, desk monitoring, onsite monitoring, and reporting.	<ul style="list-style-type: none"> ▪ Provides guidance for departments to develop their respective contract monitoring tools ▪ Provides guidance in the areas including planning, communications, desk monitoring, on-site monitoring, and reporting ▪ Standardizes the procurement activities by setting applicable policies that have to be adhered to by City staff 	<ul style="list-style-type: none"> ▪ Clearly communicating expectations to Vendors ▪ Obtaining and reviewing regular programmatic reports from Vendor ▪ Ensuring on-site monitoring ▪ Developing closeout procedures ▪ Standardizing the monitoring process and procedures 	Yes

SOURCE: OCA analysis of Purchasing Office documents

MANAGEMENT'S RESPONSE



TO: Mayor and Council Members
FROM: Byron E. Johnson, C.P.M., Purchasing Officer, Financial Services Department
DATE: December 11, 2012
SUBJECT: Progress Report on Contract Management Improvements

In accordance with City Council approved resolution (CIUR #687) from January 2012, I am providing a progress report on improvements being made to contract monitoring.

As a recap, on October 26, 2010, the City Council Audit & Finance Committee accepted the City Auditor's "Performance Audit of Citywide Contract Management" (AU101113). Management concurred with all three audit recommendations – and began work on addressing each of them. The 1st of these, changes to the City's main Administrative Bulletin (84-07) that defines roles and responsibilities for Purchasing and Contracting Authority was updated, approved and effective April, 2011. That finding (Finding Number 1) has been implemented.

New Contract Monitoring Guide & Training

In April 2012, based on best practices from the National Institute of Government Purchasing (NGIP), we finalized a new "Contract Monitoring Guide". With that audit recommendation implemented, we began the planned effort to conduct department-by-department training, working through the departments based on complexity and volume of their contracts. For each department, Purchasing staff meets with the department's staff to review the city-wide Contract Monitoring Guide, and to initiate the creation of a department specific contract manual, as well as to identify departmental staff involved in contracting.

Nine departments were trained on the released Contract Monitoring Guide by the end of FY2012. An additional five departments have been trained so far in FY2013. With additional new resources in FY2013, our plan is on schedule to complete all department visits by June 2013 to rollout the Contract Monitoring Guide and training plan.

Corporate FSD Purchasing staff will be responsible for periodically following up with the departments to ensure compliance with the contract monitoring guide and to offer assistance where needed with program development. The Purchasing Office has set up a separate unit in our Contracting Services Section to focus exclusively on these monitoring and training efforts. One new FTE was approved for FY2013. We will be proposing additional resources in FY2014 to address this new unit's workload. The unit's manager position has been hired and has started training.

We continue to develop our on-going Contract Monitoring Training Plan. Any employee who touches a contract at any point throughout the contract life-cycle will be required to attend mandatory training. Based on a survey conducted in the Spring, we created three levels of training depending upon involvement and responsibility in the contracting process. The complexity and hours of training scale up with the responsibilities involved. The training plan for individuals with the main responsibility for contract monitoring consists of 40 hours required training as well as a mix of classroom and online training which covers the major areas of contract monitoring:

- Ethics
- COA AFS Financial System

- Contract monitoring, Administration and Scope of Work Development
- Risk Assessment and Analysis

Roll out of the training is underway, beginning with the development of a customized COA training class (24 hours) which combines City specific practices with contract monitoring best practices. Included in the training are customized materials, live instruction and an exam. Attendance at all class sessions and achieving an exam passing score is required in order to receive a Certificate of Completion, which is awarded by The George Washington University Law School. Two classes have been conducted so far and 59 employees have been trained. This class will be offered on a monthly basis with the plan to train an additional 300 employees in FY 2013. Council awarded a contract on November 1st to allow staff to continue these customized trainings. Departments continue to provide data to FSD Purchasing on their employees that will need training on one of these levels. Finding number 3 is on schedule.

Attached is the plan for departmental roll-out of the Contract Monitoring Guide and Contract Monitoring Training Guide.

Contract Management Systems

Consistent with management's response to the October 2010 audit, we have completed an assessment of potential needs, existing software and options for going forward (Finding No. 2). This fiscal year work will focus on identifying areas to which additional technology improvements could enhance contract monitoring efforts. During this past year, we have made significant enhancements to our financial systems – including eCheckbook, Contract Catalog and Vendor Connection that are part of our Austin Finance Online portal. We have also put all active contract documents on-line, using the EDIMS system. In the Spring, we conducted a survey of departments regarding the tools they are currently using to track and monitor contracts. We believe two of our systems of record – AFS3 and eCAPRIS - already contain key contract data elements, and can be leveraged to enhance contract monitoring on a standard city-wide basis. We have already begun the planning work for enhancements to these existing systems, and over the next several months will be completing this planning work, assessing necessary resources and overall timeline.

Areas for additional evaluation beyond the audit scope, findings, recommendations and responses

In addition to addressing the October 2010 audit recommendations, staff continues to take a wide-look at our contracting processes and efforts. A main task will be to address controls in place around the delegation of purchasing authority from the Purchasing Officer to other officials in the city, to ensure that our purchasing and contracting processes remain efficient and consistent. Annually each designation of purchasing and contracting authority is reviewed for renewal or changes.

Resource allocation will also be critical, so that Corporate Purchasing has the ability to conduct training on the new Contract Monitoring Guide and to evaluate city-wide monitoring efforts. We anticipate many departments, in addition to FSD Purchasing, may request additional resources in the 2014 proposed budget to ensure that these oversight and control functions are adequately addressed as they go through the training and develop their monitoring guides.

Significant progress has been made over the last year on improvements to contracting management. The attached timeline/calendar shows the work that has occurred. We continue to stay focused on this effort to improve the City's overall contract processes and monitoring.

xc: Marc A. Ott, City Manager
Elaine Hart, Chief Financial Officer
Greg Canally, Deputy Chief Financial Officer
Ed Van Eenoo, Deputy Chief Financial Officer

APPENDIX B

ORIGINAL RECOMMENDATIONS, PURCHASING OFFICE MANAGEMENT RESPONSES, AND THE LAST STATUS REPORTED TO THE CONTROLLER’S OFFICE.

Rec #	Recommendation	Summary of Management’s Response	Implementation Status (as of 9/20/2012)
1	<p>We recommend that in order to strengthen controls over City contracting practices, the City Purchasing Officer design a standardized contracting process Citywide, including the following elements:</p> <p>a. a comprehensive Contract Management Manual, which should provide a roadmap to guide the contract process Citywide, and</p> <p>b. clearly defined roles and responsibilities for all parties involved in the contracting process, including the Purchasing Office, Law Department, and the various departments.</p>	<p>a. The Purchasing Officer will examine its current, written contract management procedures and compare those procedures to best practices cited by the City Auditor. Current City procedures will be refined to address any identified gaps in best practices, and will incorporate any changes.</p> <p>b. The Purchasing Officer will assess existing administrative bulletins to determine the roles and responsibilities need more clarity. The Purchasing Office will also work with Law Department to ensure that any additional definitions of roles, responsibilities, and delegations are consistent with the Charter.</p>	<p>Underway</p> <p>Existing Administrative Directives were analyzed and reviewed. Changes were suggested and revisions created. Final changes were reviewed and approved by the Chief Financial Officer and City Manager. Revised applicable Administrative Directives were released Spring 2011. Final Phase of recommendation completed.</p> <p>A draft manual for the Central Procurement contracting activities was developed.</p> <p>Purchasing is working with departments on role and responsibility definitions. The attached schedule outlines departments that have had executive training. All other departments will be completed FY 2012-13.</p> <p>Training has started on the Level III Contract Administration. This training incorporates the attached plan and will be completed by FY 2015 with over 700 individuals with at least 40 hours. Levels I and II will be completed with appropriate training hours and levels.</p>

APPENDIX B

Rec #	Recommendation	Summary of Management’s Response	Implementation Status (as of 9/20/2012)
2	<p>We recommend that the City’s Purchasing Officer formally assess options for creating an automated Citywide Contract Management System that allows for uploading, managing, tracking, monitoring, and generating reports of contracts and that is accessible to all City staff involved in the contracting process.</p>	<p>After making improvements to the “Contract Monitoring Guide” and training all appropriate personnel, the Purchasing Officer will conduct an assessment of effectiveness of these improved processes and related training. The Purchasing Office will then attempt to identify further improvements and efficiencies that could be made through the implementation of an automated system.</p>	<p>Implemented</p> <p>Assessment of current City of Austin software has been completed. First phase of recommendation completed. Analysis of software applicability for purpose has begun. The City of Austin has developed interim tools for use by City of Austin department to use. The tools include online contract catalog, eCheckbook and enhanced FSD Internet sites. An EDIMS listing of all contracts within Purchasing has been implemented and is available for FY 2010 contracts. Further work will assess options for City of Austin going forward. FSD is analyzing options for recommendations.</p>
3	<p>We recommend that the City Purchasing Officer establish a standardized contract monitoring process to ensure that the City is receiving all goods and services contracted for. Such system should include:</p> <ul style="list-style-type: none"> a. communicating policies and procedures to relevant staff to ensure that departments monitor contract on an ongoing basis; b. providing necessary training to guide contract monitoring staff and establishing a Citywide certification process for all contract 	<ul style="list-style-type: none"> a. The Purchasing Officer recently established unit that will provide oversight and guidance to City Departments to strengthen the “Contract Monitoring Guide.” b. The Purchasing Officer will determine the feasibility if implementing a certification program for contract administrators given the availability of current resources. c. The purchasing Officer will assess the feasibility of implementing a Purchasing Office review of contract management activities within the 	<p>Underway</p> <p>Policies for this have been included in the Contract Monitoring Guide. Identification of training programs available within the City of Austin has been completed. Analysis of other external training programs was completed and course developed with joint presentation of outside consultant and City of Austin staff. Reformatting of training materials has begun after successful pilot held August 13, 14, and 15, 2012 (24 hours training tailored specifically to City of Austin requirements). Additional training is ongoing and monthly level III</p>

APPENDIX B

Rec #	Recommendation	Summary of Management's Response	Implementation Status (as of 9/20/2012)
	<p>monitoring staff, such as the Contract Officer's Technical Representative (COTR) certification program established by the Office of Federal Procurement Policy; and</p> <p>c. establishing a process for conducting periodic reviews of contract monitoring activities within the departments.</p>	<p>departments to provide an independent "double check" of departmental compliance efforts on a periodic basis.</p>	<p>classes scheduled. Training will continue throughout FY 2012-13 and FY 2013-14.</p> <p>Program for monitoring to begin October 1, 2012. Contract monitoring with departments has started with one (1) FTE assigned to this responsibility. Officers and Deputy Officer are assisting implementation of monitoring and training plan.</p>