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Audit Report

Performance Audit of Citywide Contract Management

October 26, 2010

Office of the City Auditor
Austin, Texas

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City of Austin

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Date: October 26, 2010

To: Mayor and Council

From: Kenneth J. Mory, City Auditor

Subject: Performance Audit of Citywide Contract Management

I am pleased to present this audit report on Citywide contract management. Contract management refers to the entire contracting process that includes planning, contract formation, administration, and close-out activities.

We found that contract management in the City is designed to be directed centrally, but does not fully operate in a centralized manner, causing controls to be inconsistently applied. Second, some best practices that help ensure effective contracting are also not consistently applied. Finally, the City should adhere to a more uniform contract administration and monitoring process to reduce the risk that City contracted dollars may be spent inappropriately or ineffectively.

Based on our work, we recommend that the Purchasing Officer design a standardized contract management process to be used Citywide, along with an automated contract management system to allow for the uploading, monitoring, and reporting of contracts that is accessible to all staff involved in the contracting process. We also recommend that the Purchasing Officer establish a standard contract monitoring process to provide guidance and oversight for departmental staff with contract responsibilities.

We appreciate the cooperation and assistance we received from staff in the Purchasing Office, Contract and Land Management, and Law Department during this audit.

cc: City Manager
Assistant City Managers
Chief Financial Officer
Purchasing Officer
City Attorney
Public Information Officer

COUNCIL SUMMARY

This report presents the results of our audit of the City's contract management process. Contract management refers to the entire contracting process that includes planning, contract formation, administration, and close-out. In the City, contracting is delegated to the Purchasing Office for non-Capital Improvement Projects (CIP) contracts and to the Contract and Land Management Department for CIP contracts. As of July 2010, the City had 3,160 active contracts which amounted to approximately $2.7 billion.

We found that contract management in the City is designed to be directed centrally, but does not fully operate in a centralized manner. As a result, controls over contracting are inconsistently applied. Specifically, not all contracts, such as the social services contracts, go through the central control of the Purchasing Office. We also observed a few contracts that were brought to Council for approval after contract execution.

Additionally, we performed limited testing on a sample of 30 contracts, selected from all contracts above $5,000 that were active as of July 2010, and found that some best practices that help ensure effective contracting are not consistently applied, which may increase risk for contracted dollars.

Lastly, we found that the City should adhere to a more uniform contract administration and monitoring process to reduce the risk that the City's contracted dollars may not be spent appropriately or effectively.

We recommend that the Purchasing Officer design a standardized contracting process to be used Citywide, including a manual outlining the entire process and clearly defined roles and responsibilities of contract management staff. We also recommend that the 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. Finally, we recommend that the Purchasing Officer establish a formal contract monitoring process that includes creating policies and procedures, providing necessary training, and providing oversight.

ACTION SUMMARY
PERFORMANCE AUDIT OF CITYWIDE CONTRACT MANAGEMENT

Recommendation Text	Management Concurrence	Proposed Implementation Date
1. 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: a. a comprehensive Contract Management 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, including the Purchasing Office, Law Department, and the various departments.	Concur	October 1, 2011
2. 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.	Concur	FY 2013

Recommendation Text	Management Concurrence	Proposed Implementation Date
3. We recommend that the City's Purchasing Officer establish a standard contract monitoring process to ensure that the City is receiving all goods and services contracted for. 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, such as the Contracting Officer's Technical Representative (COTR) certification program established by the Office of Federal Procurement Policy, and c. establishing a process for conducting periodic reviews of contract monitoring activities within the departments.	Concur	FY 2012

TABLE OF CONTENTS

BACKGROUND **1**

OBJECTIVES, SCOPE, AND METHODOLOGY **3**

AUDIT RESULTS **5**

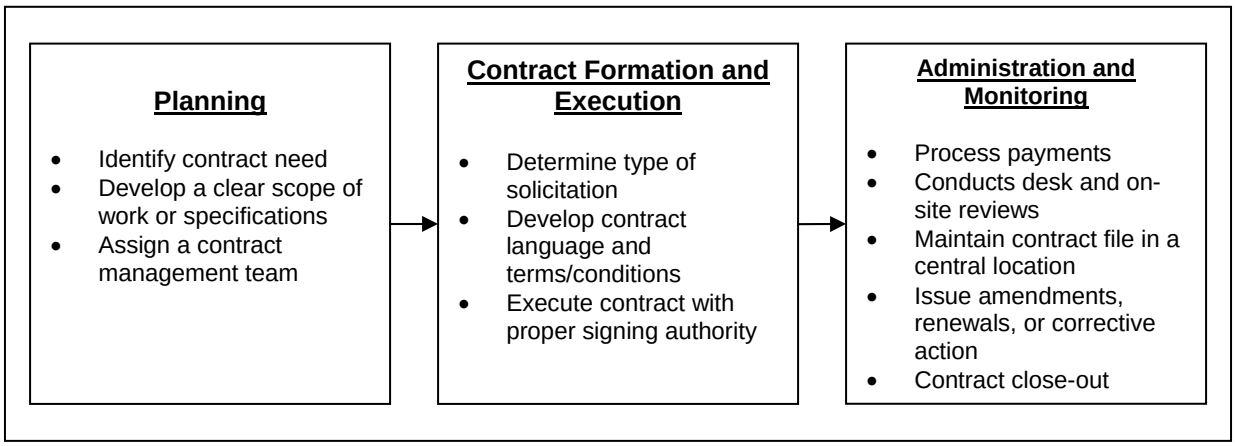
Appendix A: Management Response **13**
Appendix B: Contracts by City Department **21**
Appendix C: Survey of Financial Managers **23**
Appendix D: Survey of Contract Administration and Monitoring Staff ..... **`25**

Exhibits
Exhibit 1: Contract Management Cycle 1
Exhibit 2: Active Contracts and Master Agreements Over $5,000 1
Exhibit 3: Number of Contracts by Department 2
Exhibit 4: Amount of Contracted Dollars by Department 2
Exhibit 5: Respondents Performing Key Contract Administration Activities 8
Exhibit 6: Activities Performed by Contract Administration and Monitoring Staff 9
Exhibit 7: Tools and Training Provided to Contract Administration and Monitoring Staff 10

BACKGROUND

Contract management refers to the entire contracting process, including planning, contract formation, contract administration, and contract close-out. Exhibit 1 below outlines the major phases of the contract management cycle and related key activities for each phase.

EXHIBIT 1
Contract Management Cycle



SOURCE: OCA Analysis of the Contract Management Cycle.

In the City, contracting is delegated to the Purchasing Office for non-Capital Improvement Projects (CIP) contracts and to the Contract and Land Management Department (CLMD) for CIP contracts.

Exhibit 2 indicates that as of July 2010, the City had a total of 3,160 active contracts, amounting to approximately $2.7 billion. Exhibit 3 and Exhibit 4 on the following page show the breakdown of contracts by department, based on both the number of contracts and the amount of contracted dollars. Refer to Appendix B for a complete list of contract data by department.

EXHIBIT 2
Active Contracts and Master Agreements Over $5,000

Dollar Amount Range	Number of contracts	Total Dollar Amount	Percent of contracts	Percent of Dollar Amount
$5,001- $50,000	1,449	$ 31,365,798	46%	1%
$50,001-$500,000	1,087	$ 199,908,124	34%	7%
$500,001-$5,000,000	521	$ 848,118,462	16%	31%
Over $5,000,000	103	$ 1,628,158,539	3%	60%
TOTAL	*3,160*	*$ 2,707,550,923*	100%	100%

SOURCE: OCA analysis of contracts data provided by Corporate Purchasing Office, July 2010.

EXHIBIT 3
Number of Contracts by Department (As of July 2010)

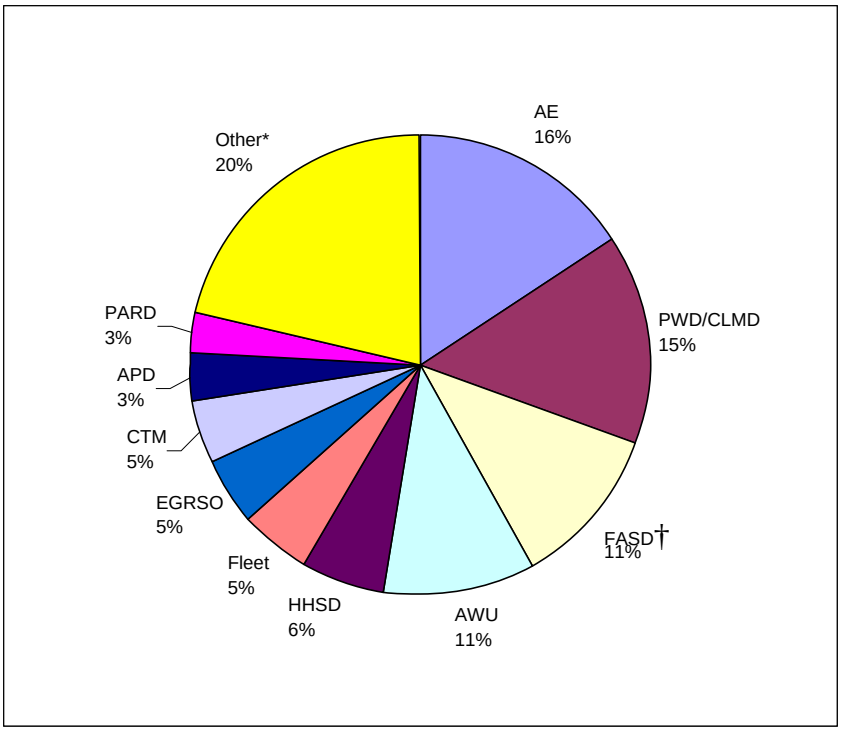
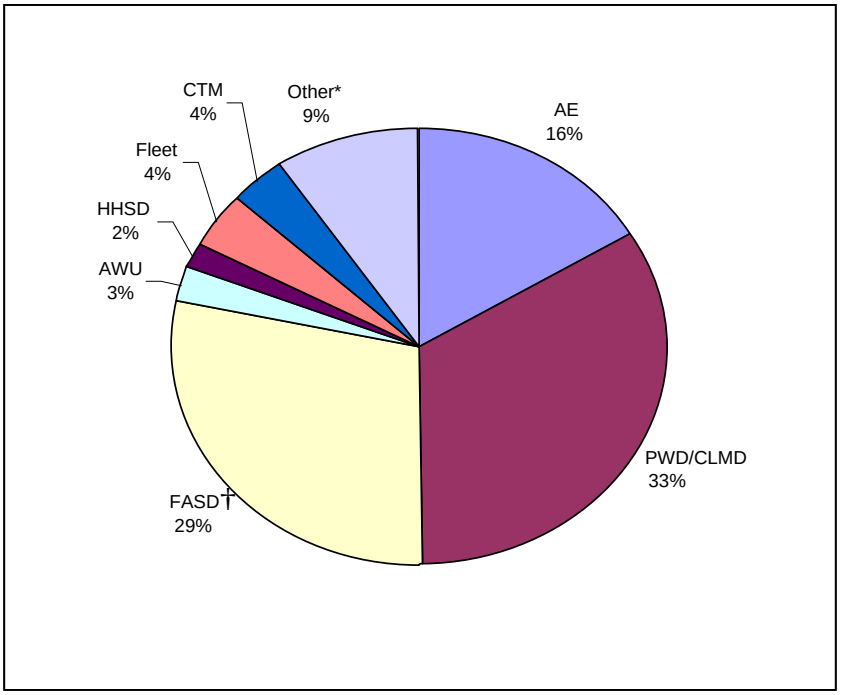


EXHIBIT 4
Amount of Contracted Dollars by Department (As of July 2010)



SOURCE FOR EXHIBITS 3&4: OCA analysis of contracts data provided by Corporate Purchasing Office, July 2010.

NOTES: * For a complete list of other departments and number of active contracts, please see Appendix B
† Approximately 90% of FASD contracts represent Master Agreements.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit was conducted as part of the Office of City Auditor's FY 10 Service Plan, as accepted by the Council's Audit and Finance Committee.

Objectives

Our audit objectives were to:

- identify key risks and vulnerabilities in the contract management process and controls at both Citywide and departmental levels, and
- rank risks and vulnerabilities and identify critical risk areas in the contract management process for future audit work.

Scope

- This audit focused on Citywide contract management processes and practices in place as of July 2010.
- Contracts over $5,000, which account for approximately 89% of City contracts (as these contracts are above departmental authority).
- Contracting activities for both Capital Improvement Projects (CIP) and non-CIP contracts.

Methodology

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

- conducted interviews with management and staff at Purchasing, Law, Contract and Land Management Department, and other City departments to identify risks over contract management processes;
- reviewed laws, policies, and procedures related to contract management;
- identified contract management best practices and developed a contract control checklist based on best practices;
- developed and administered two surveys based on the checklist mentioned above and obtained department responses to these surveys; these surveys were sent to:
    - to all financial managers citywide (details for this survey are included Appendix C), and
    - departmental contract administration and monitoring staff identified through survey to financial managers (details for this survey are included in Appendix D).
- generated a sample of 30 contracts that were active as of July 2010 and reviewed the respective contract files to determine if controls were applied consistently, and
- extracted relevant contract data to analyze the number and dollar amount of City contracts as of July 2010.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

AUDIT RESULTS

Our review of Citywide contract management identified a number of areas where processes and oversight should be strengthened to ensure the City successfully manages contracts. While the areas of weaknesses identified do not automatically translate into contracting failure, they do increase the risk that the City's contracted dollars may not be spent appropriately or effectively.

FINDING #1: Contract management in the City is designed to be directed centrally, but instead operates both in a centralized and decentralized manner; as a result, controls over contracting are inconsistently applied.

Contract management best practices[1] call for the development of a comprehensive contract management system, which should include an organizational structure with clearly defined roles and responsibilities, which can provide oversight, guidance, and accountability for contracting service.

Based on the City Charter, contracting authority resides with the City Manager up to a certain limit, beyond which the City Manager needs to seek approval from the City Council. The City also has policies and procedures that primarily address the contract formation phase. According to these policies, contracting authority for purchases above $5,000 is delegated to staff in the Corporate Purchasing Office (for non-CIP related contracts) and controls and approval are designed to reside centrally.

In our review of the contracting process, we found that while per policy all non-CIP contracts above $5,000 are expected to go through Purchasing Office, there are various contracts for which departments operate independently from the Purchasing Office. This includes social services contracts and some Austin Water Utility (AWU) contracts. These exceptions in the procurement process are not documented in the purchasing manual or in other policy or procedure documents; however, they appear to have achieved the status of standard operating procedures.

- Social services contracts are grant agreements managed by Health and Human Services Department (HHSD). HHSD has historically operated independently from the Purchasing Office and engages in all procurement activities from pre-award to contract administration and monitoring. We identified over 100 social services contracts that are currently in place that amount to approximately $36 million as of July 2010. In September 2010, City Council approved a request by HHSD and the Purchasing Office for a competitive RFP process to contract for social services.
- The Purchasing Office has delegated a higher level of authority to the Austin Water Utility (AWU), based on which AWU executes contracts up to $50,000. This delegation of authority was initiated in February 2009. We identified 111 contracts (up to $50,000) that were initiated since 2009 that amount to approximately $2.2 million as of July 2010.

[1] *Contracting: A Framework for Enhancing Contract Management*, Metro Office of the City Auditor, 2000.

Additionally, we have observed a few instances in which departments executed a contract without Council approval and then sought ratification from Council at a later time. We identified 25 such ratifications occurring between April 2009 and July 2010. While we did not verify the supporting documentation regarding each ratification to determine whether there were allowable reasons, such as emergency purchases, we did observe a few anomalies in the high level documents we reviewed.

Finally, based on interviews with Purchasing Office staff and reviews of results from past audits and investigations, we identified instances in which departments have circumvented competitive procurement by using active Master Agreements or Cooperative Purchases to acquire goods or services not covered under the agreements.

The gap between expectations and practices observed in our review may stem from the lack of a comprehensive contracting manual, which should provide a roadmap to guide the contracting process. Current policies and procedures do not clearly define the City's contracting process and do not clearly define roles and responsibilities for staff with contract-related responsibilities. This is also reflected in the results of our surveys of department financial managers and departmental contract monitoring staff, where approximately 30 percent of respondents in both surveys reported that they do not believe that roles and responsibilities for contracting are clearly documented or defined.

Well-designed policies and procedures, including clearly defined roles and responsibilities, are designed to provide assurance that a process is well governed, controls are effective and efficient, and that assets are safeguarded. When these policies and procedures are inadvertently bypassed or intentionally circumvented, it increases the risk of potential mismanagement and misappropriation of City resources.

FINDING #2: Some best practices that help ensure effective contracting are not consistently applied, which increases exposure risk for the City.

We performed limited testing on a small sample of contracts, selected from all City contracts above $5,000 that were active as of July 2010, and found that some best practices that help ensure effective contracting are not consistently applied. We compared our sample of 30 contracts, which amount to approximately $30 million of City contracted dollars, to established contracting best practices[2] and City controls, and found a lack of uniformity in the application of best practices and existing controls. Out of the 30 contracts that we reviewed, we found the following issues:

- Four contracts missing some elements of the contracts (such as no attachments or no original contract)
- One contract with no evidence of required Council approval (this contract, from Austin Energy, was later ratified by Council)
- One contract with vague scope of work
- One interlocal contract with no evidence of legal review and approval
- One file not found at Purchasing Office

[2] *State of Texas Contract Management Guide*, Texas Comptroller of Public Accounts, Version 1.6.

Additionally, while the City Charter requires that the Law Department "pass upon" all contracts, the Law Department is not directly involved in each contract. Based on discussion with the Law Department, legal staff reviews certain types of contracts, such as interlocal agreements and social services contracts, and is involved with other contracts on an as needed basis. In addition, Law Department staff has drafted templates for all contracts. However, our tests indicated some inconsistency in the use of these templates.

Finally, as per best practices[3], a contract management system should be an entity wide standardized and automated mechanism that allows for uploading, monitoring, tracking compliance, and generating reports for contracts, even if the day-to-day contract monitoring and compliance is decentralized. Such a mechanism should be accessible to all parties involved in contracting, including Purchasing Office staff and departmental monitoring staff. Currently the City lacks such a Citywide contract management system. The Purchasing Office has recently developed a contract catalog which is also available to the public; however, it only contains information for approximately one-third of City contracts, namely construction contracts and a portion of the Master Agreements. Purchasing Office management has indicated that the City may expand this system in the future. The Purchasing Office also has a contract workload management system, which does not contain all contracts and is available only to Purchasing Office staff.

FINDING #3: The City should adhere to a more uniform contract administration and monitoring process to reduce the risk that City contracted dollars may be spent inappropriately or ineffectively.

Contract administration involves those activities performed by government officials after a contract has been awarded to determine how well the government and the contractor performed to meet the requirements of the contract. It encompasses all dealings between the government and the contractor from the time the contract is awarded until the work has been completed and accepted or the contract terminated, payment has been made, and disputes have been resolved. As such, contract administration constitutes the primary part of the procurement process that ensures the government gets what it paid for.

Best practices[4] indicate that by developing an effective contract administration and monitoring process, governmental entities can mitigate the risks associated with contracting out goods and services. A contract administration and monitoring process includes the structure, policies, procedures, and system used to ensure that the objectives of a contract are accomplished and vendors meet their responsibilities. Another key element of an effective contract monitoring system is training, which increases the likelihood that individuals will monitor contracts reliably because they have the appropriate background knowledge related to contracts.

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[3] Ibid

[4] *Components of an effective Contract Monitoring System*, State of Georgia Department of Audits and Accounts, 2003.

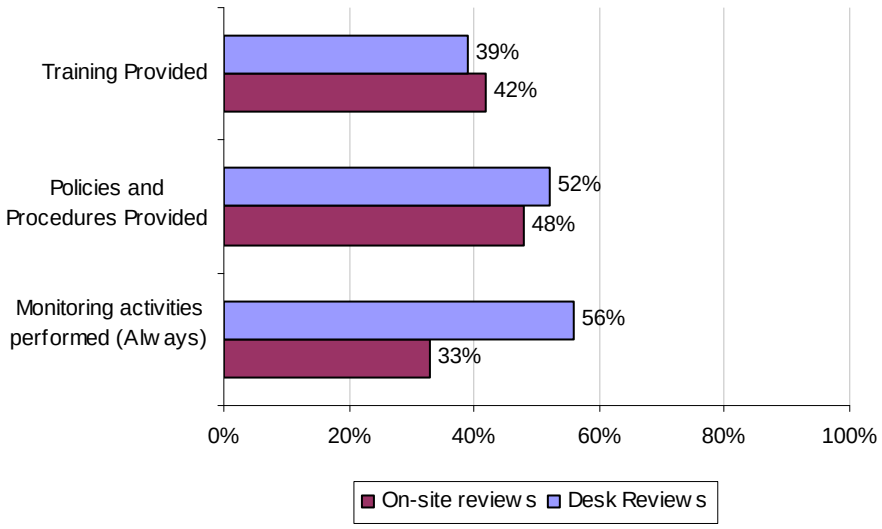
In the City, once a contract is executed, monitoring and compliance activities are delegated to the department needing the contracted good or services. Based on interviews with management, Purchasing Office involvement in contract monitoring is limited to providing assistance in case of problems with vendors and when a contract needs to be amended or renewed. The Purchasing Office has developed a contact monitoring guide as a resource for contract monitoring staff. However, the Purchasing Office has not promulgated this guide as an official policy. Further, as indicated by our survey results, not all contract monitoring staff may be aware of such guidance. Additionally, the Purchasing Office provides annual and ad-hoc trainings to departments on contract monitoring; however, such training is not a requirement for all staff with contract administration duties.

In our survey of departmental contract administration and monitoring staff, staff indicated that they do not consistently perform key contract monitoring activities, do not have relevant policies and procedures to guide them in the monitoring function, and have not received relevant training. Exhibit 5 displays the percent of survey respondents who indicated that they perform key contract administration activities, such as conducting desk reviews and on-site reviews of the contractor, and whether they feel they have the appropriate tools and training to perform their job. For example, 56 percent of respondents indicated that they consistently conduct desk reviews and 33 percent indicated that they conduct on-site reviews.

EXHIBIT 5
Respondents Performing Key Contract Administration Activities

Desk Reviews are periodic reviews of a contract to monitor compliance, which typically encompass an examination of both routine and special reports and invoices provided by the contractor. They enable an assessment of performance and compliance problems, and assist in identifying the need for on-site reviews.

On-site Reviews involve visiting the site where services are being performed or where commodities are being delivered, and seek to closely examine whether performance or compliance problems exist.



SOURCE: OCA Analysis of survey resonses from Contract Administration and Monitoring Staff

Best practices[5] indicate that a wide range of activities should be performed for effective contract monitoring. As shown in Exhibit 6, contract monitoring activities are not performed in a consistent manner.

EXHIBIT 6
Activities Performed by Contract Administration and Monitoring Staff

Survey Questions	Always	Sometimes	Never	N/A or N/R*
Review routine and special reports (including but not limited to financial and performance related) from contractors	56%	29%	11%	4%
Perform on-site review of contractor's performance	33%	37%	21%	9%
Review supporting invoice documentation from contractor to ensure that goods/services contracted for are received	69%	18%	5%	8%
Review supporting invoice documentation from contractor to ensure that ensure that goods/services received are congruent to goods/services listed on the contract	69%	20%	4%	7%
Maintain a filing system for each contract (including but not limited to performance and financial related documentation)	77%	13%	6%	4%
Resolving and addressing non-performance issues or other issues of conflicts to final resolution	48%	42%	2%	8%

SOURCE: OCA Analysis of survey responses from Contract Administration and Monitoring Staff
* NA indicates respondents noting "not applicable". NR indicates no response given.

Inconsistencies were also shown by open ended responses, where for example one department indicated that contract monitoring is done on an as needed basis; some indicated that all contracts are monitored at the same level, some indicated the use of a risk assessment, and some others indicated that there is no system in place for monitoring.

Furthermore, best practices[6] indicate that an effective contract monitoring system includes policies, procedures, and training. Exhibit 7 shows that not all staff may have the proper tools and training to enable them to monitor and evaluate contract compliance and ultimately ensure that the objectives of a contract are accomplished and vendors meet their responsibilities. For instance:

- Thirty-eight percent of the respondents indicated that policies and procedures related to reviewing reports received from contractors are not available to them and 51 percent indicated that they have not received relevant training in this area.
- Thirty-two percent of the respondents indicated that policies and procedures related to reviewing supporting invoice documentation from contractor to ensure that the City receives goods/services contracted for are not available to them and 44 percent indicated that they have not received training in this area.

[5] Ibid.
[6] Ibid.

EXHIBIT 7
Tools and Training Provided to Contract Administration and Monitoring Staff

Survey Questions	Policies and Procedures Are Available			Training Is Provided		
	Yes	No	N/R*	Yes	No	N/R*
Review routine and special reports (including but not limited to financial and performance related) from contractors	52%	38%	10%	39%	51%	10%
Perform on-site review of contractor's performance	48%	36%	16%	55%	35%	10%
Review supporting invoice documentation from contractor to ensure that goods/services contracted for are received	55%	32%	13%	46%	44%	10%
Review supporting invoice documentation from contractor to ensure that ensure that goods/services received are congruent to goods/services listed on the contract	54%	34%	12%	47%	43%	10%
Authorize invoice payment requests from contractors	53%	35%	12%	48%	40%	12%
Process payments to contractors	58%	23%	19%	44%	37%	19%
Maintain a filing system for each contract (including but not limited to performance and financial related documentation)	54%	36%	10%	46%	42%	12%

SOURCE: OCA Analysis of survey responses from Contract Administration and Monitoring Staff
* NR indicates no response given.

These inconsistencies may stem from the lack of a policy on standards and requirements to guide contract administration and monitoring throughout the organization, as discussed, throughout this report. Without Citywide mandated standards for contract monitoring, there is an increased risk of potential mismanagement and misappropriation of City resources.

Recommendations:

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

1. 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:
    a. a comprehensive Contract Management 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, including the Purchasing Office, Law Department, and the various departments.

MANAGEMENT RESPONSE: Concur
a. The Purchasing Office 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.
b. The Purchasing Office will assess existing administrative bulletins to determine if roles and responsibilities need more clarity. The Purchasing Office will also work with the Law Department to ensure that any additional definitions of roles, responsibilities, and delegations are consistent with the Charter.
(Summary of Response)

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2. 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.

MANAGEMENT RESPONSE: Concur
After making improvements to the "Contract Monitoring Guide" and training all appropriate personnel, the Purchasing Office will conduct an assessment of the 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. (Summary of Response)

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3. We recommend that the City's Purchasing Officer establish a standard contract monitoring process to ensure that the City is receiving all goods and services contracted for. Such 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, such as the Contracting Officer's Technical Representative (COTR) certification program established by the Office Of Federal Procurement Policy[7]; and
    c. establishing a process for conducting periodic reviews of contract monitoring activities within the departments.

MANAGEMENT RESPONSE: Concur
a. The Purchasing Officer recently established a unit that will provide oversight and guidance to City departments to strengthen the "Contract Monitoring Guide".
b. The Purchasing Officer will determine the feasibility of 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 departments to provide an independent "double check" of departmental compliance efforts on a periodic basis.
(Summary of Response)

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[7] *A Guide to Best Practices for Contract Administration*, Office of Federal Procurement Policy (OFPP), 1994

APPENDIX A

MANAGEMENT RESPONSE

MEMORANDUM

To: Kenneth J. Mory, City Auditor

From: Byron E. Johnson, C.P.M., Purchasing Officer

Date: October 20, 2010

Subject: Performance Audit of Citywide Contract Management

The Purchasing Office of the Financial and Administrative Services Department submits this management response to the Audit Report titled "Performance Audit of Citywide Contract Management," dated September, 28, 2010. I concur with the Audit Report recommendations, and have actions either planned, underway or to be evaluated in the future related to each recommendation.

The scope of your recommendations in this report will require a number of the City's departments to participate in discussions about our current business processes to identify refinements or modifications for improvements. I believe that the proposed timeline demonstrates a commitment to improvement.

Recommendation 2, regarding the potential implementation of an automated contract management tool is also City-wide in scope. Such a system, if deemed necessary after a thorough evaluation period, would likely require a significant budget investment, and would require a high level of integration with the City's financial system. Obviously, this recommendation will require some analysis and coordination with the City's overall information technology planning and prioritization.

We understand recommendation 3 within the context of the larger report, but feel that it is vitally important to highlight a significant financial control regarding the receipt of goods and services that has been in place since the financial system was upgraded on October 1, 2006. The City revised its financial process to implement "three-way match" as a means of ensuring that the City receives all goods and services for which it is releasing payment. In this process, the order, receipt documentation, and payment action are performed by three separate individuals; in most cases, from three different offices or departments. The receipt step, which is prepared by a department user and maintained in the financial system as a "Receiver" document, provides the verification that goods and services have been received in the proper quantity and quality, in a timely

fashion, properly labeled, packaged and otherwise completely satisfactory for the purpose intended in the contract. The document may be physically keyed into the system by someone other than the actual receiver of the goods and services. However, the person keying the transaction is acting upon a member of City staff stating that an invoice is "ok to pay" – that the goods and services reflected on the invoice are in hand, suitable, not damaged or impaired, and payment can be processed. This transaction provides all users, including auditors, with a financial system record that provides time, date, and individual preparing the receipt.

We understand that recommendation 3 is also intended to aid in capturing contracting activity that is currently conducted outside the financial system. Clearly, the financial system controls, including the three-way matching process described above, help to ensure that the City is receiving the goods and services for which it contracts. Expanding our current process to try and reach employees who do not have password access to the financial system yet who are responsible for contract monitoring, should improve the overall quality of contract monitoring across the City even if we find that the number of such contract administrators are not significant.

Each recommendation has been individually addressed in the Action Plan, which is attached to this letter.

Byron E. Johnson, C.P.M.

Byron E. Johnson, C.P.M., Purchasing Officer

cc: Leslie Browder, Chief Financial Officer
Greg Canally, Deputy Chief Financial Officer
Jeff Knodel, Deputy Chief Financial Officer

Performance Audit of Citywide Contract Management
Purchasing Office Action Plan

1. 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:

a. A comprehensive Contract Management Manual, which should provide a roadmap to guide the contracting process Citywide;

b. Clearly defined roles and responsibilities for all parties involved in the contracting process, including the Purchasing Office, Law department, and the various departments.

Concurrence:

Concur.

Proposed Strategies for Implementation:

a. The Purchasing Office will examine its current, written contract management procedures and compare those procedures to the best practices cited by the City Auditor in the State of Texas Contract Management Guide. Current City procedures will be refined to address any identified gaps in best practices, and will incorporate any changes within an expanded "Contract Monitoring Guide", using the City's latest version dated May 2009 as a base upon which to build and improve. The existing guide was developed as part of the Purchasing Office's response to the Office of the City Auditor's Report AU08101, Competitive and Sole Source Audit, which was issued in June 2008.

b. The Purchasing Office will include the City's applicable administrative bulletins as an appendix to the existing "Contract Monitoring Guide", including administrative bulletin 84-07, Purchasing and Contracting Authority and Related City Charter Requirements, which already outlines roles and responsibilities associated with departments, offices or functions that have contract monitoring / management responsibilities. This bulletin will be assessed to determine whether more clarity is needed to more specifically identify processes beyond those used for general procurement contracts, such as social services contracts or whether it would be helpful to refer to other administrative bulletins…for example administrative bulletin 85-04, which governs use and employment of legal services. The Purchasing Office will work with the Law Department to ensure that any additional definition of roles, responsibilities, and delegation of such are consistent with the City's Charter.

Since many departments have specialized supplemental materials resulting from different bodies of law, the expanded "Contract Monitoring Guide" will allow for these business units to provide supplemental materials for inclusion in the Guide. The goal of updating the "Contract Monitoring Guide" in order to provide a single, City-wide guide is to be completed by October 2011.

Status of Strategies:

Planned.

Responsible Person / Phone Number:

Byron Johnson, Purchasing Office, 974-2500

Proposed Implementation Date:

The Purchasing Office will assess Administrative Bulletin 84-07, "Purchasing and Contracting Authority and Related City Charter Requirements" to determine whether refinements are needed to more clearly define roles and responsibilities. Complete any refinements and submit to City Manager for review and approval by 3/31/2011.

The Purchasing Office will coordinate with the appropriate departments to revise the existing "Contract Monitoring Guide" by spring 2011, with implementation of revised processes and procedures by October 1, 2011.

2. We recommend that the City's Purchasing Officer should 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.

Concurrence:

Concur.

Proposed Strategies for Implementation:

After making improvements to the "Contract Monitoring Guide", and training all appropriate personnel on the new procedures and processes, the Purchasing Office will conduct an assessment of the 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, using evaluation tools similar to those used by the OCA for this audit engagement, as well as the appropriate cost/benefit analyses to help assure that the benefits to be gained and the problems that need to be solved are warranted by the significant dollar investment required for new or modified software system(s). This analysis will be conducted subject to the Information Technology governance process currently being developed by the City's Chief Information Officer (CIO). The CIO anticipates implementing the governance structure and related processes during the current fiscal year to better prioritize the funding of competing needs for fiscal year 2012.

Status of Strategies:

Planned.

Responsible Person / Phone Number:

Byron Johnson, Purchasing Office, 974-2500

Proposed Implementation Date:

Evaluate progress in contract monitoring and demonstrated compliance within six months to one year after the revised "Contract Monitoring Guide" has been disseminated and training has been completed. Begin evaluating potential computer system improvements that may be needed, including associated cost/benefit analyses needed to justify allocation of limited funding for system improvements. The earliest consideration for funding and potential development of an automated contract monitoring system would likely not be feasible until fiscal year 2013.

3. We recommend that the City's Purchasing Officer establish a standard contract monitoring process to ensure that the City is receiving all goods and services contracted for. Such system should include:

a. Establishing formal policies and procedures that require departments to 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, such as the Contracting Officer's Technical Representative (COTR) certification program established by the Office Of Federal Procurement Policy;

c. Establishing a process for conducting periodic reviews of contract monitoring activities within the departments.

Concurrence:

Concur.

Proposed Strategies for Implementation:

a. Contract monitoring improvements were implemented in 2008 as a result of a prior OCA report. In May 2009, the Purchasing Office developed and distributed the "Contract Monitoring Guide" to respond to recommendations contained in that report. In 2010, the Purchasing Office Corporate Contract Administration team provided onsite reviews and applicable instruction to departments. The Purchasing Officer recently established a unit that will provide oversight and guidance to City departments to respond to new recommendations contained in this audit report and to strengthen the "Contract Monitoring Guide". One Contract Compliance Specialist Senior within the Purchasing Office has been repurposed to this effort.

b. The Purchasing Officer will consider the feasibility of implementing a certification program for contract administrators given the availability of current resources. Training will be conducted once the refinements to the "Contract Monitoring Guide" have been completed. The Purchasing Office will contact departments to identify employees with contract monitoring responsibilities. Currently, those employees who have password access to the financial system are required to attend training on an

annual basis. Those employees without password access will be required to be trained on the curriculum described above after they have been identified.

c. The Purchasing Officer will assess the feasibility of implementing a Purchasing Office review of contract management activities within the departments. This would provide an independent "double check" of departmental compliance efforts on a periodic basis and might possibly be able to occur using existing staff resources. An extensive, centralized auditing presence is likely not feasible without additional resources. This will be evaluated further as fiscal year 2012 budget development approaches.

Status of Strategies:

Planned, or to be evaluated.

Responsible Person / Phone Number:

Byron Johnson, Purchasing Office, 974-2500

Proposed Implementation Date:

The goal of refining the "Contract Monitoring Guide" to provide a single base for training curriculum is to be completed within the next six months to one year. Implementation of other recommendations will be considered as part of fiscal year 2012 budget development.

APPENDIX B
CONTRACTS BY CITY DEPARTMENT

CONTRACTS BY CITY DEPARTMENT

Department	Number of Contracts	Dollar Amount of Contracts
Austin Energy	503	$ 444,187,111
Public Works [1]	466	$ 899,498,282
Financial and Administrative Services [2]	354	$ 777,477,097
Austin Water Utility	332	$ 68,981,118
Health and Human Services	188	$ 50,940,923
Fleet	156	$ 113,916,495
Economic Growth and Redevelopment Service	150	$ 10,241,077
Communications and Technology Management	144	$ 97,395,178
Austin Police Department	105	$ 9,244,966
Parks and Recreation Department	83	$ 8,733,674
Law	78	$ 4,344,335
Transportation	76	$ 38,364,922
Aviation	75	$ 24,946,331
Watershed Protection and Development Review	68	$ 19,110,322
Solid Waste Services	66	$ 24,043,016
Neighborhood and Housing Community Development	60	$ 28,096,457
Convention Center	40	$ 13,091,377
Emergency Medical Services	31	$ 5,248,766
Austin Public Library	35	$ 14,712,659
Human Resources	49	$ 42,380,821
Austin Fire Department	56	$ 7,157,460
Municipal Court	12	$ 2,114,052
Neighborhood Planning and Zoning	9	$ 767,362
Small and Minority Business Resources	5	$ 168,265
City Managers Office	5	$ 257,300
Communications and Public Information Office	4	$ 501,200
City Clerk	3	$ 471,000
Office of the City Auditor	3	$ 61,000
Public Safety and Security	2	$ 88,357
Governmental Relations	2	$ 1,010,000
Total	***3,160***	***$ 2,707,550,923***

1. Public Works contracts include Public Works and CLMD contracts.
2. Approximately 90% of FASD contracts represent Master Agreements.

SOURCE: OCA analysis of contracts data provided by Corporate Purchasing Office, July 2010.

APPENDIX C
SURVEY OF DEPARTMENTAL FINANCIAL MANAGERS

SURVEY OF DEPARTMENTAL FINANCIAL MANAGERS

	Survey for Departmental Financial Managers	
A	**Enter Department Name**	*Enter Response Here*
B	**Enter total number of current contracts in your department**	*Enter Response Here*
C	**Enter total dollar amount of these contracts**	*Enter Response Here*
D	**Does your department have a centralized or a decentralized contract monitoring/compliance function?**	*Enter Response Here*
E	**Please attach a list of staff in a) Contract Administration, and b) Contract Monitoring/Compliance**	*Enter Response Here*

No.	Survey Questions	Yes	No	Comments
1	Do you have citywide or departmental policies and procedures in place to guide contract managers and other pertinent staff with contract management responsibilities? If yes, please attach relevant policies and procedures.			
2	Do you believe that roles and responsibilities regarding contract management are clearly documented and well-defined?			
3	Do your policies and procedures require the use of a standard template for contracts? Who provides this template?			
4	Is guidance from the Purchasing Office required or provided for all contracts?			
5	Is guidance from the Law Department required or provided for all contracts?			
6	Does your department receive an adequate level of assistance from the Purchasing Office and/or Law Department?			
7	Do you feel that all your contracts have a well defined scope of work that would result in being able to resolve possible issues?			
8	What are the biggest issues that you face in contract management, (from contract formation through ongoing contract management)?			
9	Are you aware of any inappropriate behavior regarding contracts (management overrides, vendor fraud, potential conflict of interest, etc.)?			

APPENDIX D
SURVEY OF CONTRACT ADMINISTRATION AND MONITORING STAFF

SURVEY OF CONTRACT ADMINISTRATION AND MONITORING STAFF

The survey below was sent to 161 contract administration and monitoring staff identified through the survey to financial managers. We obtained responses from 63% of staff surveyed.

Survey for Departmental Contract Administration and Monitoring Staff

No.	Section A. General Survey Questions	Response
A1.	Enter Department Name	*Enter Response Here*
A2.	Enter your position title	*Enter Response Here*
A3.	Indicate what % of your time is devoted to Contract Administration and Monitoring related tasks	*Enter Response Here*
A4.	Please provide the number of contracts that you are responsible for and a list of such contracts. (Only If available)	*Enter Response Here*
A5	Which contract administration system do you use, if any?	*Enter Response Here*

Section B. Roles& responsibilities, Policies&Procedures and Training related questions — **Response**

Fill in the appropriate response for all the activities that you perform, policies and procedures that are available to you and training that you receive. If you indicated N/A, please explain.

		Indicate Activities You Perform				*Policies and Procedures Available*		*Training Provided*	
No.	Survey Questions	N/A	Never	Sometimes	Always	Yes	No	Yes	No
B1.	Participate in developing the contract solicitation								
B2.	Participate in drafting contractual documents (such as defining the contract's scope of work)								
B3.	Conduct or participate in post award meetings (once the contract is awarded) with contractors								
B4.	Review routine and special reports (including but not limited to financial and performance related) from contractors								
B5.	Perform on-site review of contractor's performance								
B6.	Review supporting invoice documentation from contractor to:								
B6.a	Ensure that goods/services contracted for are received								
B6.b	Ensure that goods/services received are congruent to goods/services listed on the contract								
B7.	Authorize invoice payment requests from contractors								
B8.	Process payments to contractors								
B9.	Maintain a filing system for each contract (including but not limited to performance and financial related documentation)								
B10.	Resolving and addressing non-performance issues or other issues of conflicts to final resolution								
B11.	Maintain documentation of issues indicated above in question B10								
B12.	Conduct post contract (once the contract is complete) reviews to evaluate contractor performance and communicate results to proper authority								
B13.	Are your roles well defined and clearly communicated?								

No.	Section C. Open ended questions	Response
C1.	How do you prioritize the level of monitoring needed for each contract?	*Enter Response Here*
C2.	Who do you contact when you need assistance with contract administration and/or monitoring?	*Enter Response Here*
C3.	What are the biggest issues that you face in contract administration and/or monitoring?	*Enter Response Here*
C4.	Are you aware of any inappropriate behavior regarding contracts (management overrides, vendor fraud, potential conflict of interest, etc.)?	*Enter Response Here*
C5.	Any other comments that you may want to share with us	*Enter Response Here*