

AUDIT REPORT

CITY AUDITOR

Report Date:	June 21, 2017
Departments:	Transportation
Subject:	Contract Monitoring
Lead Auditors:	Dawn von Epp & Kate Witek, Sr. Internal Auditors

OBJECTIVE

This audit was conducted to determine whether contract monitoring processes ensure vendors comply with contract terms, the City receives what it pays for, and contract related risks are appropriately mitigated.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable City and departmental policies and procedures and interviewed department contract monitors within Field Operations, Traffic Engineering, and Transportation Finance.
- Tested selected active contracts and verified the contract monitoring process was followed, contract terms were accurately entered in the department's systems, and only authorized vendors were utilized.
- Tested a sample of invoices processed within the last six months and validated pricing and deliverables were per the contract terms.
- Interviewed the City's Contracts Administrator and examined the resources provided by the Business Services Contract Management division, including their "Contract Management Framework" publication, which provides baseline best practices to effectively manage City contracts.

BACKGROUND

The Transportation Department employs 9 full-time Contract Specialists, who administer contracts for a variety of services and materials, such as streetlight maintenance, sealcoat application, street sweeping, right-of-way landscaping, etc. Additionally, various field personnel monitor contracts associated with their respective work areas.

CONCLUSION

In our opinion, Transportation contract monitoring processes provide reasonable assurance that vendors comply with contract terms, the City receives what it pays for, and critical risks related to contract monitoring are minimized. However, we identified some opportunities for improvement

in efficiency, accuracy, and document management. Our observations and recommendations are summarized below. For additional details and responses from management, please see the attached Issue & Action Plans (IAPs).

OBSERVATIONS & RECOMMENDATIONS (summary)

1. **Observation:** Cityworks Invoice Authorization calculations are not always accurate.
Recommendation: Use the City's financial system, Advantage Financial (ADV FIN), to produce Delivery Orders, and use these to replace Cityworks Invoice Authorizations.

2. **Observation:** Invoices were processed with prices that did not match contract prices.
Recommendation: Transportation staff should use the final contract document to verify invoice prices match contract prices before payment is processed.

3. **Observations:** Several Council Reports and a final contract contained errors; and final contracts are not always uploaded to the citywide Enterprise Document Management Systems (EDMS) contract database.
Recommendations: Purchasing should develop a more effective quality control process to ensure the Council Reports and contract documents are accurate. Also, Purchasing should ensure that all final contracts are uploaded to the citywide EDMS contracts database.

Issue and Action Plan #1

Issue #1: Cityworks Invoice Authorizations are not always accurate.

Observation: 2 of 14 Cityworks Invoice Authorizations tested contained Invoice Grand Totals that were double the sum of the line items.

Criteria: Systems used to perform financial calculations should be accurate.

Comments: There are several known issues with the accuracy and consistency of Cityworks Invoice Authorizations. In addition, the current process requires staff to enter contract pricing information in two different systems.

The City's core financial system is capable of producing the documents necessary to provide accurate invoice information to vendors. Using a secondary system to perform this task is inefficient and increases the likelihood of errors, which can result in inaccurate vendor payments.

Recommendation: 1-1. Use the City's financial system, Advantage Financial (ADV FIN), to generate Delivery Orders (DOs), and use these documents instead of Cityworks Invoice Authorizations to provide invoice information to vendors.

Management Response:

Action Plan #1-1:

The Transportation Department appreciates the recommendation of the City Auditor's Office, and will use their insight to help correct the issue seen on Invoice Authorization reports. Transportation Staff has verified that this is an issue with a report that was developed with Crystal Reports and not an issue with Cityworks. To help correct this issue, staff plans to follow these general steps:

- Identify Invoice Authorization reports with inaccurate calculations
- Remove erroneous reports from the system
- Create error free Invoice Authorization reports

In addition, as seen in Management Response 2-2, Transportation Staff is also establishing a process with multiple checkpoints that will ensure invoice unit pricing matches the final contract unit pricing, to

the exact decimal point, prior to payment; thus, further increasing accuracy.

Individual or Position Responsible:

RJ Zeder, Transportation Department Director

Estimated Completion Date: Completed

Issue and Action Plan #2

Issue #2: Invoices were processed with prices that did not match contract prices.

Observation: 2 of 28 paid invoices tested contained prices that did not match contract prices.

Criteria: The City should only pay invoices that match contract pricing.

Comments: For one of the contracts, the unit pricing was truncated when it was entered into the Cityworks system, due to a known problem with the system's calculations. While these unit price differences were very small, the high volume billed throughout the year resulted in the vendor being underpaid by \$8,363.

For the other contract, we could not identify the underlying cause of the erroneous pricing, but the result was that the vendor was overpaid by \$3,426.

Recommendations: 2-1. See Recommendation 1-1.
2-2. Transportation staff should use the final contract document to verify invoice prices match contract prices before payment is processed.

Management Response: **Action Plan #2-1:** (See Recommendation 1-1.)

Action Plan #2-2:

The Transportation Department agrees with recommendation 2-2, and is currently establishing a process with multiple checkpoints that will ensure invoice unit pricing matches the final contract unit pricing, to the exact decimal point, prior to payment. Below are some of the key steps staff will take to mitigate this issue:

1. Business Services (Purchasing) will now send the Transportation Finance Team (TFT) an electronic copy of the final agreement, which contains bid documents and the Master Agreement (MA). TFT will then verify that the pricing information Purchasing entered in the Financial System

matches that of the final bid documents. Any discrepancies TFT finds will be reported to Purchasing for correction.

2. The final agreement documents and the MA will then be uploaded to the Department's SharePoint site for all necessary staff to reference.
3. The Contract Specialist overseeing the contract will then prepare the necessary documentation for the GIS Team to enter into Cityworks, specifically verifying that the unit pricing matches the MA.
4. The GIS Team will then verify that the unit pricing provided by the Contract Specialist matches the MA. Once verified, GIS staff will enter the information into Cityworks.
5. Upon completion of work performed by a Contractor, or goods received, the Contract Specialist will then prepare an Invoice Authorization report. The Contract Specialist will confirm that the unit pricing is correct prior to sending the Invoice Authorization report to the vendor and TFT for payment.
6. Once a vendor invoice is received, TFT will again verify that the unit pricing in FIN Advantage is correct prior to payment. For those with discrepancies, TFT will send the Invoice Authorization report back to the Contract Specialist for revisions, which may lead to additional invoice clarification with the vendor.

Individual or Position Responsible:

RJ Zeder, Transportation Department Director

Estimated Completion Date: Completed

Action Plan #2-2:

Additional Response from Purchasing – While it is the vendor's responsibility to identify the correct price per the contract on their submitted invoices and the using departments responsibility to verify that the pricing submitted is correct, we did find an error on the printed Master Agreement (MA) document that automatically rounded unit cost to 2 decimal places, regardless of what was stated in the MA in the Advantage Financial System. While the MA in the system reflected the correct rates, and would have accurately paid the vendor had the Delivery Order (DO) been utilized properly, the MA

form is being redesigned to add decimal places that reflect what was entered into the system from the vendor's bid.

Individual or Position Responsible: Matt Bauer, Procurement Administrator

Estimated Completion Date: 6/30/2017.

Issue and Action Plan #3

Issue #3: Several Council Reports and a final contract contained errors; and final contracts are not always uploaded to EDMS.

Observations:	<p>For 28 contracts tested:</p> <ul style="list-style-type: none">• 3 Council Reports contained errors.• 1 final contract contained a unit price that did not match the price bid by the vendor.• 13 final contracts were not uploaded to the citywide Enterprise Document Management Systems (EDMS) contract database.
Criteria:	<p>City Council relies on the accuracy of Council Reports when deciding to authorize contracts.</p> <p>Contract documents must accurately reflect the vendor's bid.</p> <p>Management Policy 356, "Delegation of Signature Authority and Agreement Approval Process" states:</p> <ul style="list-style-type: none">• Section VI.5. <i>"Records Keeping. The City has established a contract repository to electronically store all agreements. This repository has been designated by the Arizona State Library and Public Records as the City's official records keeping system for all agreements and related documents. It is the responsibility of the originating department to ensure that the final executed agreement and any subsequent amendments to the agreement are scanned and entered into this database."</i>
Recommendations:	<p>3-1. Purchasing should develop a more effective quality control process to ensure the Council Reports and contract documents are accurate.</p> <p>3-2. Purchasing should ensure that all final contracts are uploaded to the citywide EDMS contracts database.</p>
Management Response:	<p>Action Plan #3-1: Staff will be reminded to verify math in Council Reports. Information on Protests will be Purchasing Information section rather than Background/Discussion to prevent duplication and conflicts.</p>

Individual or Position Responsible: Matt Bauer, Procurement Administrator; Ed Quedens, Business Services Department Director
Estimated Completion Date: 5/30/2017

Action Plan #3-2:

Purchasing is currently auditing all active contracts to ensure an Agreement document is uploaded and classified when warranted. Staff will be reminded of this item that is already on their checklist. The Procurement Administrator watch this item on the checklist audit and will spot check to ensure compliance.

Individual or Position Responsible: Matt Bauer, Procurement Administrator
Estimated Completion Date: 5/30/2017