



# CITY OF SAN ANTONIO

P.O. BOX 839966  
SAN ANTONIO, TEXAS 78283-3966

June 13, 2005

Roger Flores  
Councilman, District 1

Sheila D. McNeil  
Councilman, District 2

Roland Gutierrez  
Councilman, District 3

Patti Radle  
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Enrique Barrera  
Councilman, District 6

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Councilman, District 10

Ladies and Gentlemen:

RE: Final Audit Report – Information Technology Services Department Contract Management Process

This audit report was distributed the Governance Committee over the weekend. Attached for your review and information are the transmittal letter and final report. An executive summary of the audit results has been developed as the transmittal letter to the Committee. The final report provides an overview about the audit and the high level conclusions, pages 2 through 6.

The audit team wants the Mayor and City Council to know that City Management and Staff as well as the Information Technology Services Department and Contract Services Department, cooperated fully on this project. The report includes their responses which were viewed as positive commitments to implement process changes and improvements. Some follow up is required by City Staff to ensure past due amounts are collected from Bexar County for shared contract expenses.

The Internal Audit Department is available to discuss the details of this report with you at your individual convenience. This project involved reviewing processes that are critical financially and publicly to the City. We appreciated being able to perform this audit and to offer recommendations that can make a difference in the future.

Sincerely,

Patricia M. Major CPA, CIA, CTP, CGFM  
City Internal Auditor  
(210) 207-2853 office; (210) 215-9455 cell

cc: J Rolando Bono, Interim City Manager  
Martha Sepeda, Interim City Attorney  
Leticia Vacek, City Clerk  
Christopher Brady, Assistant City Manager  
Melissa Byrne Vossmer, Assistant City Manager  
Erik Walsh, Assistant to the City Manager  
Central Library Branch



**CITY OF SAN ANTONIO**  
**INTERNAL AUDIT DEPARTMENT**

**Review of the Contract Management Process  
For the Information Technology Services Department**

**PROJECT No. AU05-007**

**Report Date: January 27, 2005  
(Fieldwork Completion Date)**

**Release Date: June 10, 2005**

**Patricia M. Major CPA, CIA, CTP, CGFM  
Mark Swann CPA, CIA, CISA  
Frank Cortez CISA, CIA**

## **EXECUTIVE SUMMARY**

### **Overview**

The Information Technology Service Department (ITSD) had more than \$64 million in contractual obligations during fiscal years 1999 through 2004. These ranged from interlocal agreements to radio communication systems to purchasing the expertise of engineers, programmers, and others. These contracts provide services in support of public safety, business processes, and constructing and implementing the City of San Antonio (City) technical architecture. Such expenditure levels require an effective contract management system to ensure that public funds are protected, and that contractors provide quality goods and services at reasonable costs.

In July 2001, an ordinance was approved to create the Contract Services Division/Department whose mission was to assist departments with developing and promoting citywide standards and systems for improving the management of contracts. However, each department still retained responsibility to manage and monitor the contracts originated or assigned to them. Thus the City continued to have decentralized authority for initiating, administering and monitoring performance for contracts.

The purpose of this audit was to determine whether the ITSD has established an adequate contract management system along with appropriate procedures. Also, to ascertain whether personnel performing the contract functions complied with the City's Contracting Policy and Process Manual dated August 2003. Audit work included an assessment of relevant contract management risks. This review was based on discussions with ITSD personnel and examination of department documentation.

### **Results In Brief**

Analysis of current management policies and procedures and contract management processes applied to two high-risk contracts identified several areas of concern. These concerns are summarized below and detailed in the body of the report.

- Lack of formal policies and procedures related to ITSD's contract management process;
- No contract related training for managers and their staff;
- Lack of formal contract closeout procedures or checklists;
- Lack of audit clauses in contracts;
- Delays in processing payment for contracted services;
- Missing or incomplete contract files;
- Lack of follow-up on intergovernmental agencies' obligations for payment; and
- No monitoring of expiring insurance certificates.

ITSD can improve its contract management processes by developing documented procedures to manage and monitor its contracts. These procedures should require the following:

- Strong contracting oversight and guidance at the management level;
- Management reporting systems that keep effective track of contracts and flag matters needing attention;
- A formal risk assessment mechanism for identifying and managing high risk contracts; and
- Procedures for evaluating employees responsible for managing contracts.

When an improved contract management system is in place, ITSD needs to train staff in its application.

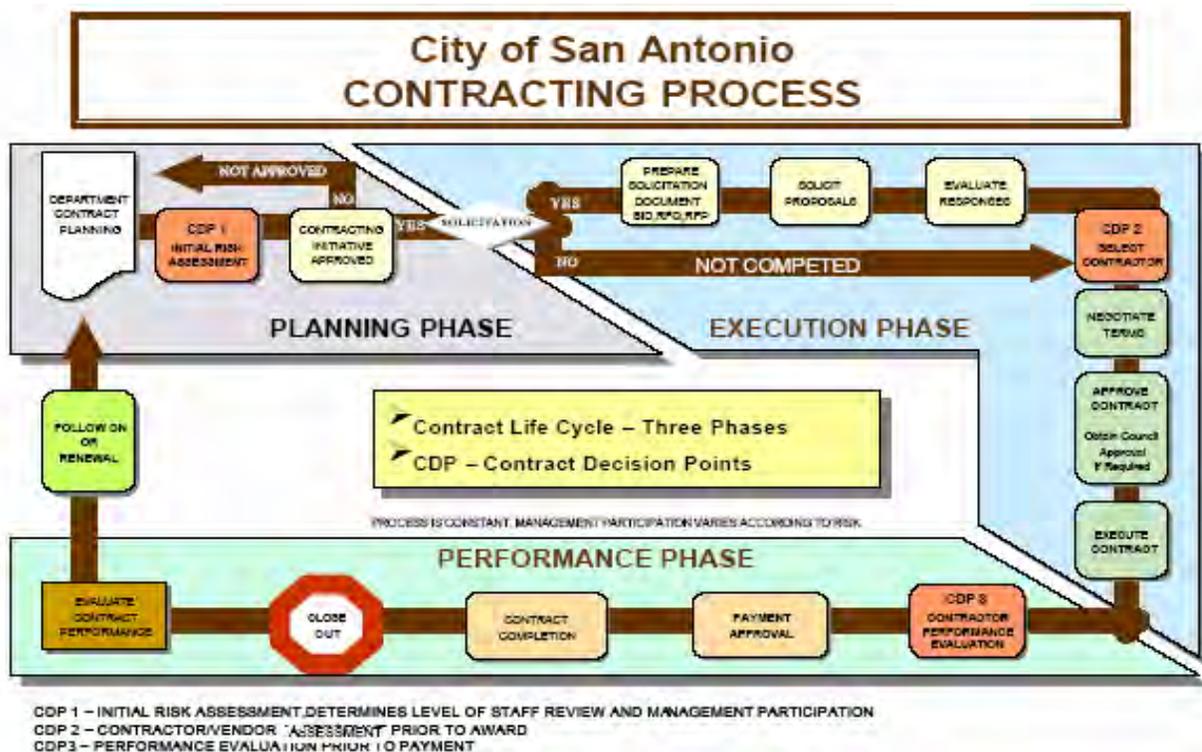
**Introduction**

Management of City contracts continues to be decentralized. As such, individual departments are responsible for contract processes from inception through conclusion. Prior to the Contracting Policy and Process Manual being issued in summer 2003, individual departments were provided minimal guidance and support for contracting practices. City leaders recognized this was an area for improvement and commissioned a performance review in early 2001 of the Business Contract Management Process & City Attorney's Office. This resulted in the identification of the following six strategies to improve the City's contract management processes:

- Establish a central business contract support unit;
- Establish citywide business contract management standards;
- Implement a structured planning and solicitation process for business contracts;
- Streamline the business contract negotiation and approval process;
- Institute more rigorous business contract monitoring practices; and
- Expand and enhance business contract management technology.

As result of this review, City Council approved an ordinance in July 2001 creating the Contract Services Division/Department, whose goal was to implement the recommendations of the Business Contract Management Process & City Attorney's Office performance review. The Contract Services Division/Department issued the first citywide Contracting Policy and Process Manual in 2003. It describes the procedures that should be employed in order to take a specific contracting initiative from its conceptual beginning to the ultimate conclusion of a contract's term. Additionally, the Electronic Contract Management System (ECMS) was the tool adopted in 2002 by the Contract Services Division/Department to track day-to-day contracting operations. ECMS was intended to become the single source for the current status of all contracts. Today, the newly implemented SAP Enterprise Resource Management system is now the single source for the current status of all contracts.

**City Contracting Process** [Figure 1]



The contracting process for the City can be separated into three distinct phases: (1) Planning, (2) Execution, and (3) Performance. Figure 1, on page 3, provides a flowchart detailing key tasks for each phase. The Contracting Policy and Process Manual provides detailed procedures related to the Planning and Execution Phases; however, the manual provides minimal guidance for key tasks that are part of the Performance Phase.

The Performance Phase is characterized by all those events that occur post-execution or after the contract was signed. Individual departments are responsible for ensuring that all contract obligations, payments and any other necessary activities have been completed as specified. To effectively discharge this responsibility, department managers are expected to develop and document contract administration procedures and monitoring plans that are best suited for their contracting activities. This still entails oversight and supervision by department division leaders and directors, and in various cases by executive management.

The Business Contract Management Process & City Attorney's Office performance review completed in May 2001 recommended the City institute more rigorous contract monitoring practices by:

- Promoting performance-based contracting techniques for business contracts;
- Strengthening performance standards for business contracts;
- Developing model business contract monitoring plans;
- Improving departmental monitoring techniques for business contracts; and
- Expanding the use of business contract audits.

### **ITSD Contracting Process**

ITSD is governed in its contracting activities by policies established by Texas Laws and the City's Contract Services Department. Within ITSD, contract monitoring is a shared responsibility between division managers / program personnel and the ITSD Contract Services Manager. Since contracts have been for services approved for or on behalf of a particular program, those personnel, including division managers, are often ideal for determining whether the contractor adequately provided the services.

### **Objectives**

This audit focused on identifying the current state of contract administration and monitoring systems in place at ITSD. The objectives of the audit were to examine the contracting management processes followed by ITSD to ensure that:

- The City's contract policies and procedures are complied with;
- Contracts were administered in accordance with a uniform set of standards;
- Financial aspects of the contract were managed appropriately; and
- Contracts were in compliance with the laws governing City contracting.

### **Scope**

The audit was restricted to ITSD's Performance Phase of the contracting process between January 1, 2002 and January 31, 2005. The engagement was not designed to determine whether a particular vendor adequately performed contracted services.

ITSD was neither able to provide a comprehensive list detailing contracts that it sponsored, nor the total expenditures adjusted for amendments and changes for its known contracts. Since no complete system or document exists that included all contracts sponsored by ITSD, the ECMS was utilized to select the sample contracts in order to examine contract monitoring practices. As of October 31, 2004, the ECMS listed ITSD as the primary proponent for 13 contracts totaling \$64.7 million in four categories: Interlocal, Lease, Professional Services and Purchasing. Two sample contracts with a total value of \$47 million were chosen for the audit.

### **Criteria**

To evaluate ITSD contract management practices, audit staff used the National State Auditors Association Contracting for Services Best Practice Document. The following criteria for an effective contract management system were used:

- Training in Contract Monitoring - increases the likelihood that individuals will monitor contracts reliably by giving them the appropriate background knowledge.
- Written Policies and Procedures – serve as a guide to departments and their personnel in ensuring a consistent, high-quality contract monitoring process.
- Organized Contract Files – should be required so that a third party could reconstruct and understand the history of the contract in the absence of the contract administrator. Contract files should hold all the information necessary to determine what was expected and received under the contract.
- Payments Linked to Satisfactory Performance – vendors should be required to submit programmatic reports in advance of or concurrent with their invoices. The programmatic reports should be directly related to the terms of the contract.
- Access to Records/Right to Audit Clauses – Departments have a responsibility to verify the information that a vendor reports to them and to ensure that funds are expended properly. The contract must include an agreement that the department or audit department has access to and can audit those records.
- On-Site Monitoring – Departments should conduct random inspections of vendor records and the delivery of services to ensure all terms of the contract are being fulfilled. On-site monitoring visits are most effective when based on a specific methodology or a checklist of reviewed tasks. On-site monitoring visits may not be necessary for all contracts.
- Measuring Customer Satisfaction – Utilizing methods to measure customer satisfaction helps to improve vendor performance because the feedback can be used to notify the vendor when specified aspects of the contract are not being met. In addition, department officials can use the information as a source of past performance information for subsequent contract awards.
- Closeout Procedures – Formal, written procedures are recommended at the completion stage of the contract so that important elements are not overlooked.

Additional benchmarks were taken from the City Contracting Policy and Process Manual, the Contract Administration and Elements Training Manuals used by the Contract Services Department, and contract terms from both the Radio Communication and the RCC Consultant Services contracts.

### **Methodology**

This audit was performed in compliance with generally accepted government auditing standards (GAGAS) issued by the U.S. Government Accountability Office (GAO).

The project methodology consisted of reviewing City policies and procedures relevant to the contracting process, reviewing selected contracts and related files, reviewing prior performance of the business contract management process, performing internet research to identify best practices relevant to contracting operations, comparing business process documentation to actual work performed by ITSD staff, and interviewing ITSD and Finance Department personnel.

The intent of conducting this audit was to provide reasonable but not absolute assurance about the existence and effectiveness of risk management and internal controls for the ITSD contract processes. In using sampling techniques and limiting the time spent performing the audit, there may be control issues that were not encountered by the audit team.

### **Conclusion**

At the time of this review, ITSD documentation, procedures, and standards were not found to support a consistent high quality contract monitoring process. Additionally, compliance with the procedures related to maintenance of files and other pertinent documentation outlined in the City's Contracting Policy and

Process Manual were lacking. ITSD must establish and consistently apply standards and procedures for monitoring all contracts, especially those considered high risk.

A lack of monitoring has resulted in the following undue financial exposure:

- ITSD did not formally monitor services performed by the contractors;
- Contractor did not provide all the required support for its work or services;
- Contractor insurance coverage lapsed and was not detected by ITSD;
- Receivables from intergovernmental agencies were overdue; and
- Payments to vendors/contractors did not meet Texas State requirements.

A conclusion was formed of ITSD's internal controls related to the contract management process through performing generally accepted audit procedures and was based on a Risk Management Capability Matrix. The risk matrix provides information on characteristics of development stages for strategy, process, people, technology and information capabilities. For this project, the assessment was based specifically on process capabilities. A more detailed description of the process capability stages has been included as Figure 2.

It was determined that the process capability stage for ITSD's contract management process was "Repeatable". At the "Repeatable" stage, some standard procedures existed, such as annual reconciliation of payments to contractors. Detective controls appeared to have been relied upon throughout the process. Few metrics existed, thus there was infrequent monitoring of performance.

With additional effort, ITSD's contract management process could be improved to the "Defined" stage within the next calendar year. This level could be obtained through documenting the contract administration processes and through implementing metrics to monitor the performance of each contract.

Figure 2 – Process Capability Maturity Stages

| Stage      | Procedures                                                                                                                                            | Controls and Process Improvements                                                                                                                                    | Metrics*                                                                                                                                                           |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ad Hoc     | <ul style="list-style-type: none"> <li>• No formal procedures exist.</li> </ul>                                                                       | <ul style="list-style-type: none"> <li>• Controls are either non-existent, or are primarily reactionary after a "surprise" within the company.</li> </ul>            | <ul style="list-style-type: none"> <li>• There are no metrics or monitoring of performance.</li> </ul>                                                             |
| Repeatable | <ul style="list-style-type: none"> <li>• Some standard procedures exist.</li> </ul>                                                                   | <ul style="list-style-type: none"> <li>• Detective controls are relied upon throughout the company.</li> </ul>                                                       | <ul style="list-style-type: none"> <li>• Few performance metrics exist, thus there is infrequent monitoring of performance.</li> </ul>                             |
| Defined    | <ul style="list-style-type: none"> <li>• Procedures are well documented, but are not regularly updated to reflect changing business needs.</li> </ul> | <ul style="list-style-type: none"> <li>• Both preventive and detective controls are employed throughout the company.</li> </ul>                                      | <ul style="list-style-type: none"> <li>• Some metrics are used, but monitoring of performance is primarily manual.</li> </ul>                                      |
| Managed    | <ul style="list-style-type: none"> <li>• Procedures and controls are well documented and kept current.</li> </ul>                                     | <ul style="list-style-type: none"> <li>• Best practices and benchmarking are used to improve process in certain areas of the company.</li> </ul>                     | <ul style="list-style-type: none"> <li>• Many metrics are used, with a blend of automated and manual monitoring of performance.</li> </ul>                         |
| Optimized  | <ul style="list-style-type: none"> <li>• Processes and controls are continuously reviewed and improved.</li> </ul>                                    | <ul style="list-style-type: none"> <li>• Extensive use of best practices and benchmarking throughout the company helps to continuously improve processes.</li> </ul> | <ul style="list-style-type: none"> <li>• Comprehensive, defined performance metrics exist, with extensive automated monitoring of performance employed.</li> </ul> |

\*Metrics provide a means for measuring how well a control or process is performing.

\*Source: 2004 Auditor's Risk Management Guide, CCH Incorporated, 2004. Paul J. Sobel, CPA, CIA.

## **CONDITION STATEMENTS AND MANAGEMENT ACTION PLANS**

The following observations and management responses are based on a review of two high-risk contracts and of ITSD's overall contracting processes. Presented in order of significance are the issues noted and the City staff responses.

### **Issue #1: Lack of Written Policies and Procedures related to the Management of Contracts**

#### **Condition**

No written policies and procedures exist for ensuring a consistent contract administration and monitoring process.

The City's decentralized contracting process gives City department directors authority for initiating the contract process, administering contracts and monitoring performance. The City's Contracting Policy and Process Manual does not provide step-by-step procedures on contract administration and monitoring. Each department is responsible for creating unique policies and procedures related to the management of its contracts. To date, there has been no verification by executive management to ensure that departments have complied with their responsibilities.

#### **Criteria**

City of San Antonio Contract Administration training recommends that departments should administer contracts in accordance with a uniform set of standards. The training does not recommend which generally accepted standards should be used. Written policies and procedures serve as a guide to departments and their personnel to ensure a consistent, high quality contract monitoring process.

#### **Effect**

Contract monitoring can vary among division managers and its effectiveness will depend greatly on the division managers' monitoring experience and expertise. Lack of policy and procedures can hinder ITSD personnel properly performing their fiduciary responsibility over the expenditure of public funds. Unexpected/unnecessary delays in work completion will usually result in the absence of specific measures and standards.

#### **Cause**

ITSD Management did not take the necessary steps to formally document reasonable policies and procedures related to contract administration and monitoring.

#### **Recommendations**

Written policies and procedures which prescribe a method for monitoring vendors and contractors, and which identify responsibility for documenting findings and recommendations should be developed.

The American Management Association and the National Institute of Governmental Purchasing recommend that many of the following subjects be include in policy and procedures manuals:

- Roles and responsibilities of the department personnel – Define who is responsible for contracting activities and who has the authority to take particular actions;
- Contract correspondence – Guidance on documenting interaction with the vendor;
- Reports detailing contract-monitoring effort – Types of reports and the information that should be included;
- Conflicts of interest – Define conflicts of interest and steps that should be taken to avoid them;
- Documentation of contract administration decisions;
- Subcontract administration – Define role of the department whose work is subcontracted by a vendor;
- Standard contract terms and conditions of contracts;
- Monitoring of contract performance – Guidance on assessing risk of poor performance and the methods that should be used to monitor performance;

- Contract completion activities – Assuring that all City property including security items is returned, that there are no outstanding claims, and that the vendor has met all the deliverables of the contract;
- Dispute resolution – Guidance on how disputes between the departments and vendor will be resolved, including what offices or officials should be involved and what documentation should be used; and
- Professional development of contract personnel.

**ITSD Response (June 4, 2005)**

We agree with the recommendations and standards for contract administration. We agree that improvements can be made to manage and administer the volume of contracts and to improve documentation and monitoring all contracts.

**Responsible Party for Implementation**

Robert Valdez – Interim Business Administration Manager for ITSD

**Implementation Date**

No specific date provided.

**Contract Services Department (May 31, 2005)**

The Contract Services Department (CSD) expanded its responsibilities recently to include centralized contract administration and monitoring services for the City (October 2004). These services include providing contract administration and monitoring training and “tool kits” to strengthen departmental internal controls and staff skills to ensure contract compliance. The tool kits contain electronic templates for contract administration plans, administrative reviews, revenue monitoring, project budgets, site reviews, SBEDA utilization monitoring, contract closeout checklists and SAP transaction examples for report writing. A “Contract Administration” chapter has also been drafted for inclusion to the *City of San Antonio Contracting Policy & Process Manual*, with the update expected to be posted to the City’s website and intranet in June 2005. In the interim, classes on contract compliance reviews and contract administration and monitoring tools have been conducted (total of 11) from March 4 through May 26. A copy of the “Contract Administration” chapter from the manual was included as a handout in five classes, reaching 160 contracting staff, including two from ITSD.

CSD has developed a variety of training curriculums to ensure that City departments are provided with a uniform set of standards during the initiation and contract administration phase of City funded projects. These standards include processes and tools to conduct successful solicitation, effective contract negotiations, enhance efficiencies in contract administration, monitoring and project closeout. Current and future training is more detailed and focused on specific contract monitoring tasks, such as those associated with compliance with the City’s SBEDA program, insurance and bonding requirements, and developing and implementing contract administration plans (CAP).

**Responsible Party for Implementation**

Mark Webb – Director for Contract Services Department

**Implementation Date**

No specific date provided.

**Issue #2: Program Officials Lacked Training in Contract Monitoring**

**Condition**

Division Managers/Program Officials, who perform day-to-day monitoring of vendor performance, lack training.

Contract training is currently offered to Fiscal and Contract Services personnel. Contract training is not mandatory for division managers/program officials with contract management responsibilities. Without adequate training, opportunities could be missed to consistently apply the best practices and tools available for day-to-day monitoring of vendor performance.

**Criteria**

Good business practices dictate that the City staff participating in contract management should be properly trained. In addition, best practices in contracting for services state contracting personnel should possess adequate skills and necessary training to properly manage a contract. Department management could conduct its own training exercises for those staff not able to attend the citywide seminars.

**Effect**

Inconsistent contract management methods are being used by division managers/program officials who monitor contracts resulting in procedural and policy errors; and there is a greater potential for increased costs to the City, and failure to ensure the adequate delivery of work/services.

**Cause**

ITSD Management has not made a sufficient commitment to identify and develop the capabilities of its division managers/program officials as they relate to contract administration and monitoring techniques.

**Recommendations**

ITSD Management should ensure that program officials, who perform the day-to-day monitoring of vendor performance, are properly trained. Training in contract management increases the likelihood that individuals will monitor contracts reliably by giving them the appropriate background knowledge related to contracts.

The Contract Services Department should strengthen the City's Contracting Policy and Process Manual to address all phases of the lifecycle, including contract management and monitoring. At present, the manual contains one page addressing the contract administration and monitoring aspect, and it was last updated in August 2003. Up-to-date and comprehensive policies promote consistent and effective contract management. The manual should include links to the contract officer training series manuals. Continuous training should be available to assist newly appointed City employees who deal with contracts.

**ITSD Response (June 4, 2005)**

In general, we agree with the recommendations defined under this item.

ITSD was directly involved and participated in the exercise for the development of the contract policy and process manual. ITSD has three employees who have received City Certification for Contracts from the Contract Services Department.

Recently, ITSD coordinated training from Contract Services Department and several of our staff and management attended classes designed for ITSD and also the general classes from Contract Services.

The department intends to employ a Contract Administrator to focus on this role and responsibilities. Additional resources will be requested as part of the FY 2006 budget process.

We agree that a schedule should be maintained on all personnel attending training. ITSD is also developing a plan to have staff and management attend specific required training.

**Responsible Party for Implementation**

All ITSD project owners.

**Implementation Date**

No specific date provided.

**Contract Services Department (May 31, 2005)**

CSD is currently engaged with ITSD to assist the department in identifying and enhancing internal processes, correcting contract data in SAP, testing for contract compliance on department-identified “key” contracts and providing department-specific contract administration training to divisional managers and specific staff. Three training sessions were held with a total of 25 attendees. A meeting with ITSD’s Acting Director is being scheduled by CSD that will discuss the on-going training offered CSD and the possible requirement of all division managers and specific staff to attend as part of their professional development requirements (EPDPs).

The *City of San Antonio Contracting Policy & Process Manual* is currently being updated to reflect new contracting processes and enhancements and will include a chapter on “Contract Administration” with links to downloadable reference documents, guidance on contract closeout tasks and automated monitoring tools (see above). CSD is also researching a computer-based training (CBT) program as a solution to more timely training of new and/or newly promoted staff assigned to departmental contracting activities.

**Responsible Party for Implementation**

Mark Webb – Director for Contract Services Department

**Implementation Date**

No specific date provided.

**Issue #3: Closeout Procedures or Checklists not Available**

**Condition**

Closeout procedures or checklists to assure that all actions required to closeout a contract are complete have not been developed. The City's Contracting Policy and Process Manual requires a closeout process to be performed after a contract is completed in order to ensure that all administrative actions are accomplished. Departments should have a consistent format and basic procedures for their closeout process and contract files should contain sufficient information on which to base closeout decisions.

The City's Contracting Policy and Process Manual does not provide procedures or standards related to closing out a contract. However, training presented by the Contract Services Department during May-July 2004 did provide this information.

**Criteria**

Contract Administration training material that lists the steps used to closeout a contract. This training material was presented by the Contract Services Department.

**Effect**

The potential for missing or not completing all the steps required to close out a contract exists if procedures or checklists are not available to assist the Contract Delegate or Contract Manager. In addition, remaining unexpended funds or questionable costs may remain unresolved.

**Cause**

ITSD Management has not developed procedures or checklists to assist its staff with the contract closeout process.

**Recommendations**

ITSD Management should put in place formal, written closeout procedures or checklists to be reviewed at the completion stage of each contract so that important elements are not overlooked and to assure that all services have been completed. The closeout procedures or checklists should be part of the file for each contract.

A contract closeout checklist should include verification that:

- All invoices have been paid;
- All property has been returned;
- All deliverables have been accepted;
- There are no pending lawsuits;
- All required reports have been received;
- Contract audit has been completed, if necessary;
- There are no outstanding classified materials;
- All computer login-on IDs have been disabled;
- All security badges and keys have been returned; and,
- All disallowed costs have been settled.

**ITSD Response (June 4, 2005)**

We agree with the recommendations that closeout procedures and checklist should be provided by the City Attorney's Office and Contract Services Department. Boiler plates should be included. ITSD will follow these approved procedures as published by the Contract Services Department.

**Responsible Party for Implementation**

All ITSD project owners.

**Implementation Date**

No specific date provided.

**Contract Services Department (May 31, 2005)**

From May through July 2004, CSD conducted six eight hour classes on contract administration and monitoring for a total attendance of 250 (two staff from ITSD), which included material related to contract closeout procedures. CSD recently conducted training, May 9 – 26, 2005, (Contract Administration Plan and Tools) that provides specific guidance and exercises on contract closeout procedures and checklists. The contract closeout documents are also included in the “Contract Administration” chapter of the *City of San Antonio Contracting Policy & Process Manual* revision.

**Responsible Party for Implementation**

Mark Webb – Director for Contract Services Department

**Implementation Date**

No specific date provided.

**Issue #4: Standard Audit Clause not included in all ITSD Contracts**

**Condition**

In 1999, there was no City policy that required contracts to contain an audit provision. The City's contracting manual does not state that an audit provision should be included in contracts. The contract element training provided by the Contract Services Department from March-April 2004 states that an audit provision clause is a "must have" for a revenue contract, and that it is strongly recommended for other contracts. However, good business practice dictates that an audit provision should be included in all City contracts.

**Criteria**

The performance review of the Business Contract Management Process & City Attorney Office recommended that high-risk contracts needed more demanding provisions such as audit clauses. In addition, good business practice dictates that the City should be protected in contracts and agreements by requiring a comprehensive audit clause to allow oversight of contracted activities.

**Effect**

The City's interests may not be sufficiently protected. Depending on the type of contract or service, a high degree of liability or the potential for severe consequences (e.g. loss of money, injuries, conflicts of interest, customer service, City's reputation, etc.) in the event of poor vendor performance may exist for the City.

**Cause**

There is no citywide policy requiring an audit clause to be included in all City agreements.

**Recommendations**

The City Manager's Office should require the Contract Services Department, with assistance from Legal, to draft a standard audit clause to be incorporated in all City agreements. The audit clause should provide explicit authority to conduct audits of any organization or company benefiting from City funding.

**ITSD Response (June 4, 2005)**

ITSD understands that the City Attorney's Office and Contract Services departments are responsible to establishing this standard and therefore recommend directing this issue to those departments. ITSD agrees with the idea. We encourage City Attorney's Office and Contract Services to consider the acceptance and implementation of this.

**Responsible Party for Implementation**

ITSD encourages the City Attorney's Office and Contract Services to consider the acceptance and implementation of this.

**Implementation Date**

No specific date provided.

**Contract Services Department (May 31, 2005)**

CSD has begun discussions with the City Attorney's Office (CAO) to draft standard audit language to include in City contracts whenever possible. It should be noted, however, that many of ITSD's contracts "piggy-back" state contracts, such as DIR and TexMas, and the City does not have the authority to make changes to these contracts.

**Responsible Party for Implementation**

Mark Webb – Director for Contract Services Department

**Implementation Date**

No specific date provided.

**Issue #5: Delays in Processing Payments and not following the Contract Payment Process**

**Condition**

A review of two high-risk ITSD contracts identified twenty-nine out of sixty-two consulting invoices, about forty-six percent, totaling \$976,603 were paid four to one hundred and seven days after the invoice date. The average number of days past due for these invoices was thirty-seven. ITSD must comply with the Texas Government Code, Chapter 2251, Prompt Payment Act (PPA) and make timely invoice payments to avoid interest penalties. In addition, invoices were not being paid in a timely manner: These delays relate to the payment process specified in one contract not being followed.

**Criteria**

In making payments for services, the City is required to follow the PPA. The PPA requires payment of an invoice on the date specified in the contract or, if a payment due date is not specified, 30 days after the start of the payment period. If payment is not made on the due date, the City is required to pay interest penalties.

Consultant Services Contract, Article II "Compensation" states that the City shall have the opportunity to review each invoice and shall pay the undisputed amount on the invoice within thirty days of the City's receipt of the invoice.

Communications System Contract, Exhibit E- Payment Schedule stated that the Project Director should verify the completion of milestones prior to the delivery of an invoice. Interest will accrue on non-disputed amounts of delinquent invoices, those more than thirty days past due, at the rate of one percent per month, as set forth in the PPA, Chapter 2251.025.

**Effect**

The City may be liable for interest on all overdue payments at the rate of one percent plus the prime rate as published in the Wall Street Journal on the first business day of July of the preceding fiscal year. The City may also be in violation of the Texas Prompt Payment Act.

**Cause**

Untimely payments of invoices are the result of a misunderstanding of the payment process as stated in the contract or the lack of performance measurement standards to assist ITSD and the Finance Department in determining how well they are reviewing and processing invoices/vouchers for payment.

**Recommendations**

ITSD Management must determine the interest penalties as a result of delayed invoice payments and should obtain a waiver from vendors impacted by amounts due because of this.

ITSD and Finance Department personnel should maintain a voucher payment log, either manually or computerized, in the contract file to assist in tracking payments. An established metric, i.e., the number of days for review and approval by the contracting officer, will help to process vouchers in a timely manner.

If timely payment of vouchers continues to be a problem, a dedicated person may be needed to log vouchers in and out, check figures for accuracy, and assist the contracting and financial officers processing of these vouchers and invoices in a timely manner.

The payment process stated in the Communication Services contract should be followed or an amendment to the contract should be submitted.

**ITSD Response (June 4, 2005)**

We agree that improvements are required in order to expedite payments but needs to be balanced with the successful completion of the contractual requirements. We also agree that departments need to work together to develop and maintain a payment log. SAP is a new system that we are currently using to track payments. We agree that monitoring payments is required and ITSD will be reorganizing our resources to perform this action.

Our interpretation of the contract is that the radio vendor payments were paid only when milestones were satisfactorily completed as defined in the contract.

For the future, payments related to contracts should be made through SAP. The process should be as follows:

- Release a purchase order;
- Invoice received at ITSD (not Finance);
- Goods receipt; and
- Payment released.

This should prevent any late payments.

**Responsible Party for Implementation**

ITSD Management, Legal, Contract Services

**Implementation Date**

No specific date provided.

## **Issue #6: Incomplete or Missing Contract Files**

### **Condition**

Contract files are not organized such that a third party could reconstruct and understand the history of a contract without the assistance of the Contract Administrator. ITSD did not have a central location or custodian for all its contract documents.

A review of two high-risk contracts valued at \$45 million identified incomplete or missing documentation. Complete contract files are required by the City contracting policy and process manual. Change order documents were missing approval signatures, invoices billing Bexar County for their portion of the contract cost could not be located, and invoices were missing from ITSD contract files.

| <b>Documents</b>      | <b>Missing</b> | <b>Total Number</b> | <b>% Missing</b> |
|-----------------------|----------------|---------------------|------------------|
| Invoices              | 5              | 37                  | 13.5%            |
| Change Orders         | 14             | 71                  | 19.7%            |
| Bexar County Invoices | 7              | 37                  | 18.9%            |

### **Criteria**

The City Contracting Policy and Process Manual, Chapter 4, Section 19 "Contracting Administration & Monitoring", states that each department's Quality Assurance Evaluators will be assigned to ensure the maintenance of contract files and all other pertinent documentation.

Contract Administration training in summer 2004 presented by the Contract Services Department stated that a Contract Delegate (CD) should set up a file for each contract. The training manual listed the type of documentation to be included in each contract file.

### **Effect**

The City and ITSD may lack supporting documentation to properly manage contracts that involved hardware, software, services and other items that are crucial to public safety and City wide operations. It is also imperative to have quick access to the contract files, especially when disputes with vendor or other major contract issues arise. Without a complete contract file, the City cannot effectively monitor costs or quality trends, assess prior contractor performance, or determine with any precision whether a contract was properly managed and terminated.

### **Cause**

ITSD Management and/or personnel have not developed standardized contract file controls.

### **Recommendations**

ITSD Management should establish and implement standardized contract file content controls to ensure completeness of information maintained. Contract files should contain all data necessary to identify contract expectations and completed deliverables. Acceptable best contract file maintenance practices include:

- Signed copy of the contract;
- Contract abstract with key data (e.g., contract criteria, important dates, assigned responsibility areas);
- Modifications to the contract;
- Approved Ordinance;
- Contract monitoring plan or contract administration plan (CAP);
- Insurance and Bonding documents;
- Permits/Certificates;
- Change Orders;
- Contingency plan;
- Meeting minutes;
- Contract correspondence;

- Reports from any on-site visits;
- Performance reports;
- Compliance issues;
- Records of complaints and vendor disputes;
- All invoices and vouchers; and
- File index of documents with signoff upon inclusion.

**ITSD Response (June 4, 2005)**

In general, ITSD concurs with the recommendations.

ITSD has a central filing system that includes contracts, ordinances, memorandums, documentations. We also use Outlook and Document Management for all our correspondence. After ordinance passes, the ordinance and agenda with memorandums and contracts are scanned and entered into DM.

The total costs of all contracts are included and have separate total and annual values for ERM and ITSD contracts. Since October 1, 2004, ERM contracts have been transferred to ITSD. This master file includes the Division responsible, type of contract, legacy contract number, description, name of vendor, Government contract numbers, Ordinance number, ordinance date, term, options, value, annual amount, type of payments, etc. An up to day hard copy will be provided. Note: this is a living document and will change. ITSD is in the process of auditing SAP for new SAP contract numbers for all annual contracts in excess of \$3000.

All change orders for the Radio contract are on file with the master contract with the Communications Division Manager.

All invoices required by the Auditor staff have since been provided to the Auditor's Office.

**Responsible Party for Implementation**

Hugh Miller – Acting CTO/Director of ITSD  
Robert Valdez – Interim Business Administration Manager

**Implementation Date**

No specific date provided.

**Contract Services Department (May 31, 2005)**

CSD is currently engaged with ITSD to assist the department in identifying and enhancing internal processes, correcting contract data in SAP, testing for contract compliance on department-identified "key" contracts and providing department-specific contract administration training to divisional managers and specific staff. This training also covers proper contract file documentation and record retention. Specifically, CSD recommends including the following items, as applicable, in each contract file:

- Approved Ordinance and City Council Memo;
- Copy of Signed Contract and Attachment;
- Contract Administration Plan (CAP);
- Insurance and/or Bonding Documents;
- Solicitation Documents (RFP/Q, IFB, etc.) and the Successful Response;
- SAP Contract Record Information;
- Initial Budget;
- Renewals/Amendments/Change Orders;
- Communications with Contractor and Others related to the Project;
- Performance Reports;
- SBEDA Monitoring Documents; and
- All Other Media Necessary to Properly Document and Maintain the File.

ITSD has begun reorganizing its contract filing system and CSD will monitor their progress through completion.

**Responsible Party for Implementation**

Mark Webb – Director for Contract Services Department

**Implementation Date**

No specific date provided.

**Issue #7: Lack of Follow-up on Obligations for Payment to the City**

**Condition**

Fifteen of 109 invoices, about 13.7 percent, for a total of \$85,243.73, were past due from Bexar County. These amounts exceed the ten-business day payment requirement stated in the Interlocal Agreement between the City and Bexar County. Below is a listing of all past due amounts as of January 31, 2005.

**Municipal Accounts Receivable &  
Receipts System**

| <b>Due Date</b> | <b>Amount</b> | <b>Status</b> |
|-----------------|---------------|---------------|
| 1/29/2004       | \$ 5,564.00   | Not paid      |
| 2/21/2004       | \$ 4,727.63   | Not paid      |
| 2/21/2004       | \$ 5,420.00   | Not paid      |
| 2/26/2004       | \$ 5,600.00   | Not paid      |
| 3/24/2004       | \$ 4,791.23   | Not paid      |
| 4/15/2004       | \$ 5,816.00   | Not paid      |
| 4/18/2004       | \$ 4,755.18   | Not paid      |
| 4/23/2004       | \$ 5,636.00   | Not paid      |
| 5/20/2004       | \$ 4,632.69   | Not paid      |
| 6/13/2004       | \$ 4,766.50   | Not paid      |
| 6/28/2004       | \$11,614.00   | Not paid      |
| 7/23/2004       | \$ 5,654.00   | Not paid      |
| 7/23/2004       | \$ 5,700.00   | Not paid      |
| 9/20/2004       | \$ 5,058.50   | Not paid      |
| 9/20/2004       | \$ 5,492.00   | Not paid      |

**Criteria**

Bexar County shall pay to the City of San Antonio, subject to the County Cap, all amounts due within ten business days of receipt of a copy of consultants' invoices(s) for consulting services relating to the 800 MHz Public Safety Radio System according to the Communication System Joint Operations Agreement between the City of San Antonio and Bexar County, Article IV, Section 4.04, County's Obligations.

**Effect**

Untimely follow-up on billed items can result in delinquent and ultimately uncollectible receivables. The unavailability of these City funds can negatively impact other programs.

**Cause**

Policies and procedures identifying the roles and responsibilities between ITSD and the Accounts Receivable Section in Finance did not exist. Processes for following up and collecting on Accounts Receivable invoices have not been clearly defined by City executive management.

**Recommendations**

Make cooperative arrangements with the Finance Department by defining roles and responsibilities for each department, and list specific duties and tasks that each department will perform regarding past-due accounts receivable. Defining responsibility for contracting activities should be part of the written policies and procedures discussed formerly in Issue # 1.

Formal standards should be developed which prescribe the number of days for review, approval, and follow-up by the contracting officer or Accounts Receivable personnel, to assist in processing and collecting payments in a timely manner.

For existing receivables, contact Bexar County and request payment of past-due invoices to include eligible interest penalties.

**ITSD Response (June 4, 2005)**

We agree with the recommendations. Standards for collecting revenues from outside agencies should be established for departments to follow.

All documentation has been delivered to the Auditors Office as requested. ITSD has met with Bexar County and discussed the need for payment to the City. As a result, the City received \$34,431 and has a balance owing of \$50,796. ITSD has released a letter requesting payments for outstanding balance.

**Responsible Party for Implementation**

ITSD, Finance

**Implementation Date**

No specific date provided.

**Issue #8: No Monitoring of Insurance Renewals.**

**Condition**

ITSD Management does not have evidence of monitoring activities in relation to insurance renewals and performance bonds.

**Criteria**

The services contract with the City of San Antonio reviewed in the audit states that during the term of the agreement the vendor shall maintain property damage insurance and general public liability insurance with limits and coverage equal to or greater than the limits and coverage set forth.

**Effect**

The absence of insurance coverage increases the risk of the City of San Antonio being held responsible for payments of damages to persons or property resulting from a vendor performance.

**Cause**

There is more than one cause for this problem. Staffing resources for monitoring contracts have not been dedicated, and there are no clearly defined monitoring responsibilities for ITSD personnel.

**Recommendations**

ITSD management should request Risk Management or project delegates to take responsibility to verify and monitor compliance with contract insurance requirements for the duration of each contract. ITSD should document the disciplinary actions that can and will be taken if staff does not follow the appropriate contracting processes since the resulting outcome will be lost funds, cash flow, and/or non-performance by the contractor.

In addition, a monitoring plan should be developed for every business contract before awarding or signing it. The Contract Services Department should develop a model contract-monitoring plan to provide ITSD to assist in monitoring contracts.

**ITSD Response (June 4, 2005)**

ITSD agrees that insurance certificates and performance bonds must be monitored. This will be one of the responsibilities for the new contract administrator role. Meantime, ITSD will use SAP to monitor the expiration of these documents.

We also agree the recommendation that the model should have a plan at the beginning and not after the contract has been established. At present, the process has this occurring after the contract.

**Responsible Party for Implementation**

All ITSD project owners.

**Implementation Date**

No specific date provided.

**Contract Services Department (May 31, 2005)**

CSD has provided training on the use of SAP to monitor contracts, including a report writing function to monitor expiring insurance certificates (ZINSRENEW) to 110 staff (one from ITSD). Additional report writing training was provided to the Contract Services division of ITSD on May 11 and 12, 2005. Instructions (handouts) were also presented to provide guidance on the maintenance of insurance information within SAP and recommended reporting intervals.

CSD is currently engaged with ITSD to assist the department in identifying and enhancing internal processes, correcting contract data in SAP, testing for contract compliance on department-identified "key" contracts and providing department-specific contract administration training to divisional managers and specific staff. During this exercise, CSD prepared six CAPs for ITSD's key contracts, reviewed these with

the appropriate division managers and/or specific staff, and provided instruction on future CAP development. The six CAPs were created for the following contracts:

- Avaya Telephone Parts/Service/Support;
- Integritel;
- Microsoft Enterprise Agreement;
- AT&T/Cingular Wireless Service;
- Northrop Grumman; and
- Xerox Corporation.

**Responsible Party for Implementation**

Mark Webb – Director for Contract Services Department

**Implementation Date**

Upon implementation of projects