



**Audit Report
Service Contracts Under \$100,000
FY15 and FY16
June 28, 2018**

**City Auditor's Office
Gregory L. McDowell, CPA, CIA**

Audit Report
Service Contracts Under \$100,000
FY15 and FY16
June 28, 2018

Purpose and Scope

The purpose of this audit was to determine whether service contracts are written to properly selected vendors, and the documented deliverables were in line with contract expectations. Auditors also verified whether the price paid per the invoice agreed to the contract.

The audit focused initially on service, technology, design, and construction service contracts executed during FY15 with a contract amount ranging \$25,000 to \$99,999. Of the 286 service contracts within this range in FY15, (valued at \$17,280,307) auditors tested 20 (totaling \$1,173,520), representing 7% of the contracts executed and nearly 7% of the value of FY15 contracts in the testing dollar range.

After reviewing FY15 service contracts, Internal Audit expanded the scope to FY16 service contracts with a focus on the issues identified from the FY15 review. Of the 363 service contracts within the range of \$25,000 to \$99,999 in FY16, (valued at \$14,779,659), auditors tested 16 (totaling \$879,668) representing 4% of the contracts executed and 6% of the total of all contracts value in the testing dollar range.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This report is intended for the use of the City Manager's Office, City Council and all City Departments.

Conclusion

The lack of policy compliance resulted in a risk that service contracts under \$100,000 were not awarded or administered properly. Risks can be mitigated by a new process to require Procurement personnel to ensure contract solicitations are compliant with controls and standards prior to approval by the City Manager or a designee.

Summary Results

Policy violations for the solicitation and documentation of service contracts under \$100,000 occurred frequently in FY15 and FY16. The Departments' lack of compliance with established policies relate to solicitation and documentation of service contracts.

- Solicitations: Some departments could not supply documentation to support any efforts which may have been made to follow the City's solicitation requirements. Lack of documentation violates City procurement policy and state statutes.
 - ✚ M&FS/Procurement should act as "gatekeeper" by ensuring City Departments have complied with existing internal controls and standards, before submittal to the City Manager's Office for approval. Procurement should develop and administer an efficient process, similar to the Sole Source Justification approach, so that each department's efforts to contact multiple firms is documented, along with a brief explanation of the selection decision factors.
- Administration: Several departments did not follow basic contract administration steps to ensure deliverables were in line with contract expectations, and that rates charged were accurate.
- Other: The required Technology Proposal Evaluation Team (TPET) approval was not obtained prior to the execution of two contracts; and insurance certificates were not on file for eight of ten E&PM contracts reviewed.

Background

The Citywide Procurement Policy MFS 24, effective July 14, 2014, applies to the Procurement of all Goods, Services and Technology by the City of Charlotte. The Policy is not intended to govern the Procurement of Construction, Architecture, Engineering or Surveying Services as provided for in the Citywide Policy for Procurement of Design and Construction Services (EPM 1).

The objectives of this Policy (MFS 24) are to:

- Establish effective and efficient Procurement methods that are legally compliant, uniform throughout the City, and designed to obtain the Best Value in terms of quality, service, and cost;
- Strengthen internal controls, support fiscal accountability and transparency, and ensure integrity in the City's Procurement processes;
- Promote fair and open competition in Procurements;
- Comply with the City Business INclusion Program and other City policies that impact Procurement; and
- Facilitate the highest level of stewardship on behalf of the citizens of Charlotte.

Audit Findings and Recommendations

1. Contract solicitation and administration.

Solicitation: Contracts less than \$100,000 do not receive the (higher) level of scrutiny of Council approval which applies above this threshold. However, the City's Procurement Policy and state statutes require documented efforts which address fairness, to protect and ensure business-like awarding and spending of taxpayer monies.

Finding 1.A.

- Some departments could not supply documentation to support any efforts which may have been made to follow the City's solicitation requirements. Lack of documentation violates City procurement policy and state statutes.
- The City's Procurement Management Process and Procedure manual requires City staff to maintain a record of informal solicitations in compliance with the NC State Record Retention Law.
- This policy and statute violation prevents Departments from being able to prove that a fair selection process was conducted.

M&FS John Bennett (Lawton & Associates) – \$95,000; (September 1, 2015) – M&FS staff did not maintain a record of the solicitation process. Reportedly, three vendors were interviewed by a panel of City staff and Lawton & Associates was awarded the contract, based on an assessment of services.

E&PM Corner Stone Construction Services, Inc. – \$93,890; (November 25, 2015) – Solicitation documents were not maintained.

Kimberly E. Fox, PLLC - \$75,000; (April 9, 2015) – E&PM signed a contract with Kimberly E. Fox, PLLC based on the Company's 2012 RFP approval. While the department requested approval for the contract from the City Manager and explained that a new RFP was in process, the memo did not indicate the immediate need for the contract or request an exemption from an RFP solicitation.

I&T Wherescape USA, Inc. – \$36,720; (March 16, 2015) – Solicitation documents sent to prospective vendors could not be provided by I&T. (Finding #1.B. addresses the lack of administration for this contract. Also, see finding #2, which addresses the lack of TPET approval prior to contract execution.)

Bizodo, Inc. – \$56,450; (April 14, 2016) – I&T staff could not locate the evaluation of quotes received.

Kyle Wright – \$25,000; (August 14, 2015) – I&T staff did not maintain a record of the solicitation process. A contract was signed with Kyle Wright after he

verbally offered to do the work at a reduced rate, which was lower than a City-held contract with a vendor that does similar work. I&T staff state that alternate contractors which they considered had higher rates, but they did not document the process or other rates they reviewed. (Finding #2 addresses the lack of TPET approval prior to contract execution.)

Administration: Several departments performed inadequate contract administration of the service contracts reviewed.

- **Finding 1.B.** Several departments did not follow basic contract administration steps to ensure deliverables were in line with contract expectations, and rates charged were accurate. The lack of contract monitoring puts the City at risk of overpaying the vendor.

Aviation – Lane Construction Corporation – \$65,675; (November 20, 2015)

This contract requires the submittal of weekly timesheets for vehicle operators, and man hour utilization reports, for comparison against invoices submitted for payment.

- Aviation staff did not ensure Lane Construction Corporation's compliance with timesheets/man-hour detail documentation submittal requirements. Therefore, Aviation would not have been able to review timesheets to ensure accuracy of hours worked on invoices submitted for payment. This lack of oversight and review decreases the likelihood of strict compliance with contract terms. While Aviation retained the right to audit submittals at a later date, the contract specifically required that backup documentation be submitted with each invoice, to allow a timely review.

CATS – Chem Clean, Inc. – \$38,406; (June 1, 2015)

- Invoices were not posted against the contract in the City's financial accounting system (MUNIS). Posting to the system is a basic contract administration duty and works to prevent expenditures in excess of the contract amount.

E&PM – HICAPS, Inc. – \$30,000; (October 27, 2014)

This contract paid the vendor for services performed on an hourly and unit price basis using the rates set forth in the contract and required hourly rates, unit prices and reimbursable expenses be itemized on each invoice.

- Invoices reviewed were billed as a lump sum, preventing the invoice (\$12,600) from being reviewed for the accuracy of contractual rates or reasonableness of hours worked, since no itemization occurred.

E&PM – ASA Aubrey Springer Architect, PC – \$25,000; (May 11, 2015)

This contract requires hourly rates, unit prices and reimbursable expenses to be itemized on each invoice.

- Invoices reviewed were billed as a lump sum, preventing the verification of the invoiced amount (\$1,415) to the contractual terms, since the hourly rates were not itemized. Verifying that the amount billed matches the contracted price is a basic contract administration duty and is necessary to prevent billing errors.

E&PM – Pease Engineering and Architecture, PC – \$30,000; (June 25, 2014)

This contract pays the vendor for services performed on an hourly and unit price basis using the rates set forth in the contract and requires hourly rates, unit prices and reimbursable expenses to be itemized on each invoice.

- Invoices reviewed were billed as a lump sum, preventing the verification of the invoiced amount (\$17,961) to the contractual terms. On unit price contracts, verifying that the amount billed matches the contracted price is a basic contract administration duty.

E&PM – Studio 1 Architects, PC – \$97,455; (January 12, 2015)

This contract pays the vendor for services performed on an hourly and unit price basis using the rates set forth in the contract and requires hourly rates, unit prices and reimbursable expenses to be itemized on each invoice.

- Invoices reviewed were billed as a lump sum, preventing the verification of the invoiced amount (\$61,155) to the contractual terms.

E&PM – Champion Landscapes, Inc. – \$95,181; (January 22, 2015)

This contract pays the vendor for services performed on a unit price basis using the unit prices set forth in the contract. Payment applications were submitted listing the item purchased, quantity and unit price.

- The price paid for two items could not be verified to the bid as accurately priced because they were not included on Champion Landscapes' bid. The two items may have been substituted for items listed on the bid. The total cost of the substituted items was \$5,000 higher than the bid price of similar items and was within the aggregate contract amount. However, on unit price contracts, verifying that the amount billed matches the contracted price is a basic contract administration duty.

I&T – Wherescape USA, Inc. – \$36,720; (March 16, 2015)

This contract required each invoice to include a timesheet, itemized in detail with accompanying documentation of all expenses for which the company sought reimbursement.

- Invoices reviewed did not include timesheets and one invoice did not include the documentation for travel expenses. When the timesheets were requested by auditors, I&T staff determined the hours paid on the invoices did not match the timesheets provided. The vendor provided a detailed time report for the contract duration and total hours billed were subsequently reconciled. Such review should be done timely to reduce the risk of overpayment.

Charlotte Water – Hart & Hickman, PC – \$50,000; (April 1, 2014)

This contract compensated the vendor for actual work performed on an hourly and unit price basis for services listed in the contract. Hourly basis fees and reimbursable expenses were to be itemized on the invoice.

- Invoices reviewed were billed as a lump sum, preventing the verification of the invoiced amount (\$21,725) since the hourly rates were not itemized. On unit price contracts, verifying that the amount billed matches the contracted price is a basic contract administration duty.

Recommendations

- ✚ Departments need to review the City policy and State statutes, and commit to compliance. To avoid any allegations of favoritism or neglect of proper (legally required) fairness in solicitation of contracts, city-wide training should be provided to reinforce solicitation documentation that must be kept on file. Contracts should be monitored in enough detail to allow recognition of potential billing errors, and compliance with basic contract requirements.
- ✚ M&FS/Procurement should act as “gatekeeper” by ensuring City Departments have complied with existing internal controls and standards, before submittal to the City Manager’s Office for approval. Procurement should develop and administer an efficient process, similar to the Sole Source Justification approach, so that each department’s efforts to contact multiple firms is documented, along with a brief explanation of the selection decision factors.

Responses:

M&FS – M&FS agrees with the finding. M&FS will educate staff on proper records retention practices.

M&FS/Procurement – The appropriate process for gatekeeping the approval process will be put in place during FY 2019.

E&PM – Re. Corner Stone Construction Services, Inc., E&PM agrees. The contract was awarded through a proper solicitation process, although the required informal invitation (call log) was not maintained in the contract file by the Project Manager (PM). E&PM will provide training and written guidance for informal solicitation requirements.

E&PM – Re. Kimberly E. Fox, PLLC. E&PM agrees with Internal Audit's findings. While a new request for proposal (RFP) was in process, there was an immediate need to get the contract underway since it was tied to NCDOT funding. Although there is no City Policy or North Carolina State Statute that limits the amount of time that has passed from an RFP solicitation to contract award; EPM recognizes that there should be a best practice in place of awarding a new contract within one year from the selection of an RFP. EPM will seek a waiver for a contract resulting from an RFP if there is a gap between an RFP selection, the contract need, and having a new RFP process in place.

E&PM – Re. Contract Administration, E&PM agrees with Internal Audit's findings and will develop Contract Administration training for PMs. The training will include a pass off from contracts to the project team detailing the main elements of the contract.

I&T – Innovation & Technology is in agreement with the findings and recommendations above. In FY17, Procurement Processes and Procedures were developed, rolled out to all I&T Divisions and implemented accordingly. The formation of I&T's Procurement & Finance team and the execution of these new procedures provide assurance that adequate controls are in place to ensure that these types of issues will not reoccur.

Aviation – Aviation relied on field inspections and daily monitoring by Aviation staff to gage the reasonableness of the invoice. Aviation acknowledges the importance of requesting timesheets/man-hour reports to ensure the accuracy of invoice. Aviation will adhere to the contract requirement going forward.

CATS – We concur. In accordance with CATS Standard Operating Procedures, all requisitions should include the contract number to ensure the proper tracking and management of contracts.

Charlotte Water – Charlotte Water will verify invoices are billed in a manner consistent with the compensation article required in the contract. The following actions will be taken:

- a) Reminders will be provided at monthly Engineering Project Manager meetings by the Chief Engineer, Engineering Division Managers, and Procurement Manager.
- b) Newly hired Project Managers will be trained on proper invoice processing.
- c) Bi-annual seminars will be conducted on processing invoices in Munis.

2. TPET approval was not obtained prior to the execution of two contracts.

The Citywide Procurement Policy MFS 24 requires procurement of technology goods and services valued at \$10,000 or more to be reviewed and approved by the Technology Proposal Evaluation Team (TPET) in accordance with Technology Governance Policy ADM12. The review and approval must be obtained prior to soliciting proposals for technology goods and services.

Per discussion with Procurement, the TPET review and approval for informal solicitations can occur prior to the signing of a contract for technology goods and services and not be considered a policy violation.

Seven contracts for technology services were tested and auditors noted two instances where the contract was signed prior to TPET approval.

- I&T staff did not request a new TPET approval for Wherescape USA, Inc.'s \$36,720 contract for system administration services. While the Wherescape system itself had TPET approval, the addition of the system administration services should have been reviewed separately in a new TPET request form.
- I&T staff obtained TPET approval for Kyle Wright's \$25,000 contract after the contract was signed.

Recommendation: Additional training should be provided regarding TPET review and the requirements. Prior to final signature, a copy of the TPET approval should be reviewed by the contract signer.

Response: I&T agrees. Internal processes now provide for closer monitoring of the TPET approval process. If requests over \$10,000 are received by I&T Finance without a formal TPET approval, I&T Finance does not move forward until the proper documentation is received.

3. Insurance Certificates were not on file.

Contract Processing and Payment Policy MFS 4 specifies that departments are responsible for ensuring that any required insurance certificates are received, reviewed and archived for their respective contracts and entered in the tracking system authorized by Risk Management. CyberSure has been Risk Management's system for maintaining all certificates since September 2014. The system notifies the employee listed when the Certificate of Insurance (COI) is about to expire so that a new certificate can be requested.

- E&PM could not provide eight of ten updated COIs for FY15. For those eight contracts, the COI was provided when the contract was signed, but had since expired and an updated certificate should have been requested from the vendor.

Recommendation: Departments should upload COIs to CyberSure and upon notification that a certificate is about to expire, request an updated certificate from the vendor.

Response: E&PM agrees. Effective February 2016, E&PM started uploading COIs to Cybersure. E&PM and the vendor are notified 30 and 10 days prior to the expiration date listed on the Certificate of Insurance. As an additional control, E&PM will run a list of active contracts twice a year to compare with the Cybersure repository.