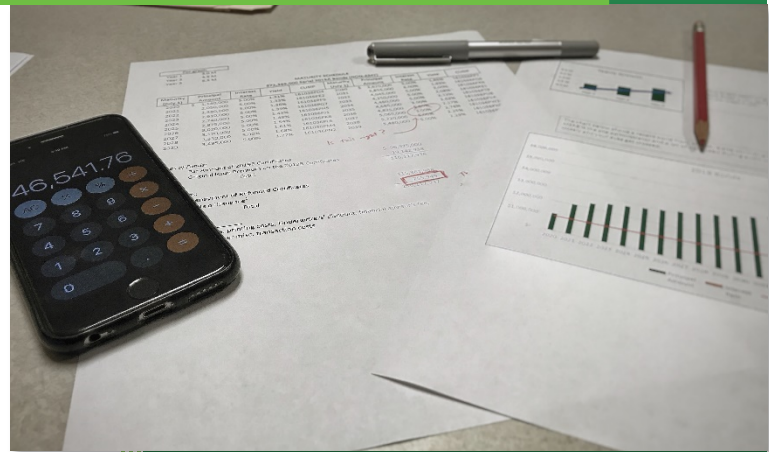




Financial Consultant Contract Management



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Financial Consultant Contract Management Audit

Executive Summary

Purpose

This audit was requested by the City Manager to determine whether current procurement practices involving financial consultant contracts comply with applicable City policies and GFOA-recommended best practices.

Background

The Citywide Procurement Policy applies to the procurement of all services. This audit focused on financial consultants, who typically manage advanced financial models as well as assist in the City's debt issuance process. Financial advisor fees vary based on many factors including debt type and deal complexity.

The Treasury Division of the Finance Department (Treasury) retains a financial advisor and a consultant to serve the City.

CATS, Aviation, Water, and CMPD also hire consultants to assist in rate setting, researching funding sources, and long-term financial planning and review.

Conclusion

The City has not consistently followed established policies and best practices for the procurement and payment of financial consultants.

Highlights

1. Finance and the City Attorney's Office should competitively solicit financial advisory and consulting services.

- North Carolina General Statutes do not require a formal solicitation process for services.
- Three firms were hired more than 20 years ago and the contracts have not been rebid.

2. Finance should change the payment structure and process for financial advisors and consultants.

- ***Contingent Payments***
 - Best practice is for financial advisor payments to be made over the duration of work performed instead of being contingent on the issuance of debt.
- ***Vendor Maintenance***
 - Payments have been made to companies not registered in the City's system of records (MUNIS) as vendors.
 - Applicable contracts and adequate supporting documentation have not always been maintained in MUNIS for financial consultants.
- ***Payment Process***
 - City policy states "All purchases, regardless of type, shall be entered into the City's System."
 - Payments related to bond issuances have been made outside of MUNIS. To be transparent, invoices should flow through the normal accounts payable process.

Actions Planned

Finance and the City Attorney's Office agree with the audit recommendations and plan to have new controls in place by June 30, 2020. This includes competitively soliciting financial consultant services, structuring contracts to be paid for services rendered rather than on a contingency basis, ensuring vendor data is maintained in MUNIS, and paying invoices using the normal accounts payable process.

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Background

There are many types of debt instruments used across multiple departments of the City including general obligation and revenue bonds, certificates of participation, bond anticipation notes, and refunding deals. Financial consultants and advisors typically manage advanced financial models, assist in the debt issuance process, and help select the type of financing that provides the City with maximum economic benefits. Their fees are based on variables such as debt type and deal complexity.

For the purposes of this audit, the terms financial advisors, financial consultants, and bond counsel are used interchangeably. The chart below summarizes the type of work performed by each vendor:

Financial Advisor	Financial Consultant	Bond Counsel
<ul style="list-style-type: none">• Outline deal structure and timing• Obtain ratings• Liaise with the LGC¹• Review Official Statement and other documentation• Assist with market pricing• Assist with the development of financial policies• Review financial projections and assumptions	<ul style="list-style-type: none">• Calculate long-term financial models• Support rating analyses• Provide industry insight• Review Official Statement and other documentation• Assist with rate setting• Draft Comfort Letters on feasibility of specific deals• Review financial projections & assumptions	<ul style="list-style-type: none">• Opine on validity of bond offering• Provide advice• Prepare documents• Determine extent bond interest is tax-exempt

The Treasury Division of the Finance Department (Treasury) retains financial consultants to serve the City. Departments can also hire financial consultants for department-specific needs. The Charlotte Area Transit System (CATS), the Aviation Department (Aviation), Charlotte Water (Water), and CMPD (Police) hire consultants to assist in rate setting, long-term financial planning, and to research funding sources.

Objective

This audit was requested by the City Manager to determine whether current procurement practices involving financial consultant contracts comply with applicable City policies and the Governmental Finance Officers Association (GFOA)-recommended best practices.

¹ North Carolina Local Government Commission

Scope, Methodology, and Compliance

Scope

Internal Audit reviewed financial consultant agreements from FY 2015 through FY 2019.

Methodology

Audit staff performed the following procedures:

1. Reviewed GFOA Best Practice Guides and relevant City policies
2. Analyzed the procurement process for financial consultants and reviewed Request for Proposal (RFP) documentation
3. Reviewed contracts and invoices for the financial consultants
4. Benchmarked payment and procurement processes for financial consultants against peer North Carolina municipalities

Compliance

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

Findings and Recommendations

1. Finance and the City Attorney's Office should competitively solicit financial advisory and consulting services.

While North Carolina General Statutes do not require a formal solicitation process for services, the Citywide Procurement Policy (MFS 24) requires either an informal or a formal process for all contracts with a value greater than \$10,000 and \$100,000, respectively. On June 28, 2018, Internal Audit issued an audit report titled, Service Contracts Under \$100,000, covering FY15 and FY16 service contracts. The conclusion follows:

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.

Finance (formerly Management and Financial Services) accepted the report's recommendations that departments comply with existing policies and controls, and each department's effort to solicit proposals from multiple firms be documented.

Additionally, the GFOA has published three applicable Best Practice Guides relating to this topic. The Procurement of Financial Services Guide recommends governments "provide regular due diligence" of all financial service providers, including regular competition every five years. The Best Practice guides for Selecting and Managing Municipal Advisors and Selecting Bond Counsel each state that awards should be based on merit using a competitive process. A competitive process using a request for proposals (RFP) or request for qualifications (RFQ) provides issuers with the ability to compare quality and costs and to select a firm that best meets their needs.

For FY 2015 – FY 2019, auditors reviewed all eleven financial consultant contracts awarded by the City, and their respective procurement processes, for the following departments:

Department	# of Firms	5-year Total ²
Aviation	3	4,876,098
Treasury	3	3,140,326
CATS	2	2,374,415
Attorney's Office	1	2,173,180
Other ³	2	528,797
	11	\$ 13,092,816

Of the eleven firms reviewed, the solicitations for three occurred over 20 years ago and have not been competitively rebid. Payments to these three vendors have been authorized as part of City Council's bond approval process. However, best practices noted above recommend periodic competitive solicitations.

² Data is from MUNIS and Treasury's internal records

³ Includes work performed related to Charlotte Water and Police

Recommendation: Finance and the City Attorney's Office should work with City Procurement to competitively solicit financial advisory and consulting services at least every five years.

Value Added: Compliance; Risk Reduction

Finance Response: Finance agrees and will implement a process to select financial advisors using a competitive process and to select the most qualified firms based on the scope of services and evaluation criteria. Further, Finance expects to include the standards related to the selection and hiring of municipal advisors in its debt management policy. A request for qualifications will be undertaken by June 30, 2020.

City Attorney Response: The City Attorney concurs that it should work with City Procurement and Finance to competitively solicit bond counsel services at least once every five years. The City Attorney will assist Finance in preparing a request for bond counsel qualifications by June 30, 2020.

2. Finance should change the payment structure and process for financial advisors and consultants.

A. Contingent Payments

The GFOA Best Practice Guide for Selecting and Managing Municipal Advisors recommends that financial advisors be paid on an hourly or retainer basis that reflects the nature of the services provided, rather than on a contingency basis. Structuring payments to financial advisors over the duration of the work helps remove a financial incentive to complete a deal with unfavorable results for the City.

In contrast, two Treasury financial consultants are paid on a contingent basis upon the closing of each financing arrangement. The invoices only detail a general description of services provided (e.g., Financial Advisory Services related to the 2019 General Obligation Bonds). Other departments in the City have financial consultant contracts that detail the hourly fees for each contractor employee and clearly outline the project scope and deliverables. The invoices received from those advisors are based on either billed hours, the achievement of deliverables, or scheduled dates. These arrangements align with best practices and reduce the risk that a municipal advisor will provide guidance that could lead to an unnecessary bond issuance.

Recommendation 2A: Finance should structure financial consultant contracts to be paid over the duration of the work performed instead of being contingent on a debt deal's closing.

Value Added: Compliance; Risk Reduction

Finance Response: Finance agrees and will enhance its written contracts for financial advisory services to include not only the scope of services but also a basis of compensation. Reflective of the nature of the services provided to Finance, fees paid to financial advisors will be on a retainer basis. In the case of contingent compensation agreements, Finance will

undertake ongoing due diligence to ensure that the financing plan remains appropriate to the City's needs.

B. Vendor Maintenance

MUNIS, as the Enterprise Resource Planning (ERP) system for the City, should contain certain information for all vendors.⁴ Multiple City policies provide guidance to departments on properly managing their vendors and contracts within the MUNIS system.

The Citywide Vendor Policy (MFS 19) states, "No City Department shall enter into a Purchase Order (PO), Contract, or any other purchasing arrangement...prior to Vendor Registration." The Citywide Procurement Policy requires all executed contracts be scanned and uploaded to MUNIS, regardless of type.

However, for the eleven consultants tested:

- One financial consultant used by Treasury is listed in the system as an "inactive" vendor but currently performs work for the City, and is paid via the trustee, US Bank. Also, there is no contract for this vendor within MUNIS.
- Another consultant used by Treasury is not in the system but also currently performs work and is paid via the trustee.
- One consultant is currently used by the City Attorney as bond counsel. While MUNIS contains some information related to that consultant, it is for work unrelated to bonds. MUNIS contains no engagement letters or other documentation related to bond counsel support.

Since the information for the work performed by these financial consultants is not in MUNIS, only Finance/Treasury and City Attorney employees are likely to be aware of these vendor relationships. Additionally, Procurement Management (primarily responsible for vendor administration) cannot independently maintain and verify required vendor data. This includes addresses, business and demographic information (Minority, Women, and Small Business Enterprises program), commodity/service codes, and taxpayer identification numbers.

Recommendation 2B: Finance and the City Attorney's Office should follow City policies by creating vendor records within MUNIS for any financial consultants and attaching all required documentation.

Value Added: Compliance; Risk Reduction

Finance Response: Finance agrees that financial advisory firms be included in the MUNIS vendor file. A process to ensure that all current vendors are included in the vendor file will be completed by June 30, 2020. Any new vendors will be required to be included in the vendor file.

⁴ Contract Processing and Payment Policy (MFS 4)

City Attorney Response: The City Attorney concurs that bond counsel should be included in the MUNIS vendor file and will work with Finance, as needed, to meet that requirement.

C. Payment Process

Section 1.1.3 of the Citywide Procurement Policy states that certain documents are required to be maintained in MUNIS as attachments to each relevant contract. This includes purchase orders, invoices, and other transaction records. Section 1.1.9 further clarifies, “All purchases, regardless of type, shall be entered into the City’s System.”

Financial consultants directly involved with debt issuances are paid with the proceeds from each financing. Once a debt instrument is issued, the proceeds are held in a trust account. When Treasury receives a related invoice, the City Treasurer authorizes the trustee to use the proceeds to pay the vendor directly. This process occurs outside of the City’s normal accounts payable workflow and is not tracked in MUNIS. When payments are made outside of the MUNIS accounts payable process, it violates City policy and is difficult to monitor total spending.

Internal Audit attempted to contact 14 North Carolina municipalities to benchmark the method(s) of payment used when paying financial consultants. Ten of the 11 respondents pay their financial advisors through their respective accounts payable departments. The 11th respondent usually makes payments through a trustee due to timing constraints, but will pay via their accounts payable department when possible.

Recommendation 2C: Finance should pay all financial consultant invoices using the City’s accounts payable process. In instances where it is necessary to pay the consultant via the trustee, Finance should document the exception and work with the Financial Services Manager to maintain a detailed payment history and other supporting documentation.

Value Added: Compliance; Risk Reduction

Finance Response: Finance agrees that payments to financial advisory firms and other debt related services should be easily accessible in MUNIS. Where possible, the accounts payable process will be utilized and reimbursement can be made from funding held by the trustee. All transactions should be linked to the appropriate vendor in MUNIS. Finance staff will develop new procedures that will be implemented by June 30, 2020.

Conclusion

The City has not consistently followed established policies and best practices for the procurement and payment of financial consultants.

Distribution of Report

This report is intended for the use of the City Manager's Office, City Council, and all City departments. Following issuance, audit reports are sent to City Council via the Council Memo and subsequently posted to the [Internal Audit website](#).