

# Audit of Procurement for Services of \$25,000 or Less

Report # 2017-05 | September 2017

Procurement Guidance and Training were Insufficient to Ensure Employees Properly Procured Services on Behalf of the City

City Departments did not Ensure Contracts were Awarded and Executed in Accordance with City Code and City Policy

City Departments Failed to Ensure Contracts were Managed in Accordance with City Code and City Policy

Internal Controls were Insufficient to Prevent Inappropriate Payments to Contractors



*City of*  
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# AUDIT FACT SHEET

## Audit of Procurement for Services of \$25,000 or Less

September, 2017

2017-05

### RECOMMENDATIONS

We made 32 recommendations aimed at improving transparency and stakeholder expertise, clarifying contract terms, improving compliance, and reducing risk to the City and its contractors. Recommendations include:

#### Improving Procurement Transparency and Stakeholder Expertise

- Establish a code of conduct or other ethics, guidelines, and standards.
- Define roles and responsibilities of procurement stakeholders.
- Review and revise training programs to ensure they are consistent with City Code and City policy.
- Consider requiring employees with procurement responsibilities to complete training before engaging in procurement activities.

#### Clarifying Contract Terms

- Establish clear standards regarding periods of performance and develop controls to ensure bids and contracts include specific periods.
- Revise contract forms to include a signature date.

#### Improving Compliance and Reducing Risk

- Establish contract quality control and review procedures.
- Develop controls to ensure contracts are not developed, executed, or managed by untrained employees.
- Develop controls to ensure bids and contracts are written to the appropriate thresholds.
- Develop controls to ensure contracts are not supplemented beyond established thresholds.
- Develop controls to ensure contracts are fully executed prior to any service performance.
- Develop controls to ensure supplements are only executed if they are authorized in the contract and are only executed before the contract expires.
- Consider requiring the Procurement Manager to authorize all sole source procurement requests.
- Develop controls to ensure requests for sole-sourcing are approved prior to awarding sole source contracts.
- Consider a review of contracts signed by City Officers to determine the validity of those agreements.
- Consider a review of City contractors' tax certificate status to recover overdue taxes and penalties.
- Develop controls to ensure contracts cannot be executed without a valid Business Operation Tax Certificate.
- Develop controls to ensure purchase orders are only authorized with a valid contract in place.
- Develop controls to ensure invoices are not paid without a contract in place.
- Develop controls to ensure purchase orders stay within a contract's limit.
- Develop controls to ensure employees do not authorize payments that exceed a contract's limit.

### BACKGROUND

The Department of Finance's Procurement Division is responsible for developing standards and policies relating to the City's procurement activities. City employees have a duty to safeguard the public trust and public resources and to ensure that public procurement is conducted in an environment of transparency. This audit examined the City's procurement for services of \$25,000 or less, and tested those functions to determine if they were performed in compliance with applicable laws, ordinances, regulations, and policies.

### FINDINGS

#### Procurement Guidance and Training were Insufficient to Ensure Employees Properly Procured Services on Behalf of the City

During this audit, we found procurement guidance was often inadequate, contradictory, inconsistent, and vague. Specifically, we found:

- The City could benefit from establishing procurement ethics and standards;
- The City could benefit from identifying stakeholders and defining their responsibilities;
- Procurement guidance is not in line with City Code and policy;
- Many key employees did not receive training prior to engaging in procurement activities; and
- The City could benefit from clarifying the use and purpose of purchase orders.

#### City Departments Did Not Ensure Contracts were Awarded and Executed in Accordance with City Code and City Policy

During this audit, we determined departments routinely failed to meet many contract execution requirements. Specifically, we found that:

- Sole source contracts were routinely awarded without appropriate authorization;
- City officers may have executed contracts without authority; and
- The City regularly executed agreements with contractors who did not have valid business operation tax certificates.

#### City Departments Failed to Ensure Contracts were Managed in Accordance with City Code and City Policy

During this audit, we determined departments routinely failed to meet many contract management requirements. Specifically, we found that:

- Contract periods were frequently extended without authorization and supplements were frequently executed after the contract period ended;
- Competitive procurement thresholds were routinely circumvented by supplementing contracts after execution;
- Many contracts lacked clearly defined periods of service; and
- Many contracts were signed after the service period had started

#### Internal Controls were Insufficient to Prevent Inappropriate Payments to Contractors

No centralized controls exist within the Procurement or the Accounts Payable Divisions to prevent the City from paying for uncontracted services or from overspending contracts. Specifically, we found that:

- Contractors performed services and received payment without a contract in place; and
- Some contractor payments exceeded contract limits.

## Introduction

In accordance with the City Auditor’s 2016/17 Audit Plan, we have completed the *Audit of Procurement for Services of \$25,000 or Less*. 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.

The City Auditor’s Office would like to thank the Department of Finance, the Office of the City Clerk, and the Office of the City Attorney for their cooperation during the audit process.

## Background

The City of Sacramento has established fiscal responsibility as a priority, stating that, “As our city continues with the economic recovery, it’s crucial to adopt financially sound policies and procedures that are prudent and take into account long-term impacts.”<sup>1</sup> The Department of Finance’s Procurement Division is responsible for developing standards and policies as they relate to the City’s procurement activities. City employees have a duty to safeguard the public trust and public resources and to ensure that public procurement is conducted in an environment of transparency, which is defined by the National Institute of Governmental Purchasing (NIGP)<sup>2</sup> as, “easily accessible and understandable policies and processes. This value is essential to demonstrate responsible use of public funds.”

This audit examined the City’s procurement and contracting for professional and non-professional services of \$25,000 or less, and tested those functions to determine if they were performed in compliance with applicable laws, ordinances, regulations, and policies. The audit also assessed the uniform and consistent application of procurement and contracting processes.

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<sup>1</sup> City of Sacramento Approved Budget, Fiscal Year 2016/17.

<sup>2</sup> The National Institute of Governmental Purchasing is a nonprofit educational organization that provides best practices and promotes “the public procurement profession through premier educational and research programs, professional support, technical services and advocacy initiatives that benefit members and constituents...”

## Procurement Authority and Responsibility

The City of Sacramento Charter provides the City Manager authority and responsibility “to execute, on behalf of the [C]ity all contracts, franchises, leases or permits...” Sacramento City Code further establishes that the Finance Department “shall be responsible to the chief executive officer for the financial affairs of the city.” Select City Codes and policies related to contracting services of \$25,000 or less are listed in Figure 01 below.

**Figure 01: Select Procurement-related City Codes and Policies**

Code/Policy Number	Code/Policy Title
<b>City Code 3.54</b>	Non-Discrimination in Employee Benefits by City Contractors
<b>City Code 3.56</b>	Purchasing of Supplies and Services
<b>City Code 3.64</b>	Contracts for Professional Services
<b>API<sup>A</sup> 53</b>	Non-Discrimination in Employee Benefits by City Contractors
<b>AP<sup>B</sup> 4002</b>	Public Projects
<b>AP 4101</b>	Non-professional Services
<b>AP 4102</b>	Professional Services
<b>N/A</b>	Signing Authority Policy

Note A: Administrative Policy Instructions (API)

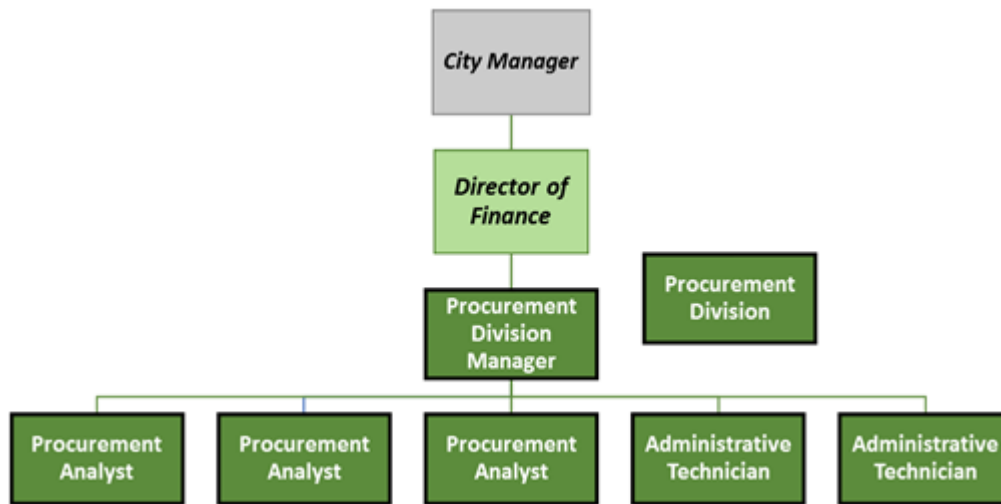
Note B: Administrative Policy (AP)

Source: Auditor generated from City Code and City policies.

## Procurement Services

The Procurement Division is responsible for “establishing procurement standards, ensuring compliance with procurement policies and best practices, managing citywide contracts, and assisting departments with solicitations and contracts.” The Procurement Division’s organization is shown in Figure 02 below.

**Figure 02: Procurement Division Organizational Structure**



Source: Auditor generated from Department of Finance Organization Chart.

Except for City-wide contracts, the Procurement Division does not regularly execute or manage solicitations or contracts for services. Rather, individual City departments conduct their own solicitation and contracting using guidance established by City Code and City policy, and additional information provided by the Procurement Division. In this sense, City procurement may be considered decentralized, as opposed to a centralized model wherein a single agency, such as the Procurement Division, would accomplish most procurement functions on behalf of City departments.

In Fiscal Year (FY) 2007-08, Procurement was a division of the Finance Department and provided “comprehensive purchasing services to City departments.” Procurement Services has undergone significant changes since that time:

1. In FY 2008-09, the Procurement Division was moved from the Department of Finance to the Department of General Services, who began reducing the procurement services provided Citywide. This reduction in services would continue through FY 2011-12.
2. Between FY 2007-08 and 2012-13 the Procurement Division’s staffing was reduced 73 percent from 22 full time equivalent staff to its current level of 6 full time equivalent staff.
3. In FY 2013-14, Procurement was reorganized back to the Department of Finance where it currently resides.

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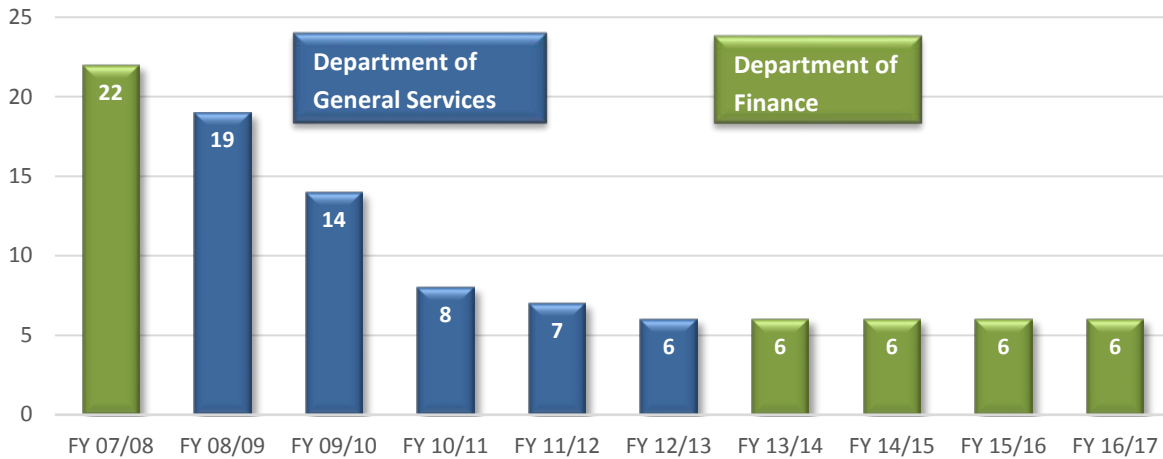
***The Procurement Division’s staffing was reduced 73 percent from 22 full time equivalent staff to its current level of 6 full time equivalent staff.***

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Figure 03 below shows Procurement Division staffing over ten years.

**Figure 03: Procurement Division Staffing Levels**



Source: Auditor generated based on City Operating Budgets.

Procurement functions now performed by decentralized staff include soliciting bids and/or quotes, awarding and writing contracts, monitoring services for compliance with contract terms, and authorizing payments for services.

### Information Systems

The current procurement and contracting process relies on many independent information systems. Some systems interact with one another; for example, the electronic Citywide Accounting and Personnel System (eCAPS)<sup>3</sup> creates payment vouchers based on an invoice's approval status in K2, a workflow software program. However, many of these systems do not interact, requiring users to access multiple databases to find related information. For Example, employees may need to use several different information systems to solicit a bid, validate a contractor's tax certificate, confirm insurance information, request a purchase order, and approve invoices. Additionally, contracting forms are written in Microsoft Word then converted to Portable Document Format (PDF) for storage. Several departments also reported using their own databases or spreadsheets to monitor spending against contracts. Figure 04 below shows some of the regularly used information systems in the procurement process.

<sup>3</sup> eCAPS is a PeopleSoft Enterprise Resource Planning system used by the City of Sacramento.

**Figure 04: Procurement-related Information Systems**

Program	Process
PlanetBids	Soliciting Bids for a Service Contract
MS Word	Writing a Contract
City website	Verifying a Contractor’s BOT Certificate
Exigis Riskworks	Verifying a Contractor’s Liability Coverage
CARA <sup>4</sup>	Storing Contracts, Invoices, & Payment Vouchers
eCAPS	Requesting & Creating Purchase Orders Creating & Approving Payment Vouchers
Captiva	Processing Invoices
K2	Routing Invoices

Source: Auditor generated.

The Department of Finance and the Office of the City Clerk are spearheading a project, named Automated Bids, Contracts, and Digital Signatures (ABCDs), to establish a self-service supplier portal, a digital procurement platform, and comprehensive contract management modules within eCAPS. According to the Finance Department,

“The objective of the ABCDs Project is to implement a citywide contract management system using best practices to eliminate redundancies, increase staff effectiveness, and improve transparency by integrating current City applications where practical.”

While ABCDs has not yet been implemented, we recognize the potential of a centrally managed information system to address many of the findings and recommendations included in this report. To that end, we have attempted to incorporate what we believe to be appropriate and effective information system controls in our recommendations.

### **Objective, Scope, and Methodology**

The objective of the *Audit of Procurement for Services of \$25,000 or Less* was to assess the effectiveness of the City’s procurement processes and policies for professional and non-professional service contracts of \$25,000 or less, and to determine whether existing controls were sufficient to ensure compliance with applicable laws and policies, and reduce risk to the City.

We selected the limit of \$25,000 as this represents the City’s threshold at which stricter contract awarding requirements apply. Contracts up to \$5,000 do not require competitive procurement, and may be awarded at the discretion of the project manager. Contracts between \$5,000 and \$25,000 only require an

<sup>4</sup> CARA is the City’s content management interface, which allows users to access City documents such as contracts.

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***The Department of Finance and the Office of the City Clerk are spearheading a project...to establish a self-service supplier portal, a digital procurement platform, and comprehensive contract management modules...***

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employee to request a minimum of three quotes for services, while contracts over \$25,000 require a more formal competitive selection process. As contracts for \$25,000 and below require less structured solicitation and lower level approval, they may present a higher risk of noncompliance with laws and policies.

While the scope of this audit was ostensibly agreements of \$25,000 or less, our sample dataset and other examples include many contracts that ultimately exceeded \$25,000 after supplements<sup>5</sup>.

To conduct trend analysis and to test the effectiveness of contracting controls and compliance, we developed a sample dataset of 180 contracts and supplements. This dataset is a nonstatistical sample, and therefore may not be representative of the entire population of contracts for services of \$25,000 or less. We compiled the dataset by searching for contracts entered into CARA between July 1 and September 30, 2015. We reviewed the results of that search and downloaded those which appeared to be service agreements for \$25,000 or less. We then searched CARA for supplements to those contracts, and included those supplements in the dataset. Some results from the initial search were contract supplements, as opposed to original contracts; if the supplement's original contract appeared to be \$25,000 or less, we downloaded that original contract as well as any associated supplements from CARA. The resulting sample dataset consisted of the following 180 documents:

- 109 Original Contracts
  - 78 Not Supplemented
  - 31 Supplemented
- 71 Contract Supplements

While the sample dataset described above was used for general data testing throughout the report, we also relied on additional individual contracts to serve as specific examples of noncompliance or otherwise poorly executed agreements.

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<sup>5</sup> Supplements are agreements that amend the terms of an existing contract.

## **Finding 1: Procurement Guidance and Training were Insufficient to Ensure Employees Properly Procured Services on Behalf of the City**

The Procurement Division is responsible for establishing procurement standards, ensuring compliance with procurement policies and best practices, managing citywide contracts, and assisting departments with bidding and contracts. The Procurement Division also offers procurement training classes and, through the City's internal and public websites, provides resources such as procurement templates, general provisions, information on contract-related laws such as the Equal Benefits Ordinance, and products such as a "How to Do Business with the City of Sacramento" pamphlet.

During our audit, we found procurement guidance was often inadequate, contradictory, inconsistent, and vague. Specifically, we found:




- The City could benefit from establishing procurement ethics and standards;
- Procurement guidance is not in line with City Code and policy;
- The City could benefit from identifying procurement stakeholders and clearly defining their responsibilities;
- Many key employees did not receive training prior to engaging in procurement activities; and
- The City could benefit from clarifying the use and purpose of purchase orders.

In our opinion, a framework of ethics and standards, clearly established and consistent guidance, and value-added training could result in a more knowledgeable, responsible, and compliant public procurement environment.

### **The City Could Benefit from Establishing Procurement Ethics and Standards**

Multiple procurement organizations consider ethics and standards to be fundamental to public procurement. The United Nations, the National Institute for Governmental Procurement, and the California Association of Public Procurement Officials all stress the importance of ethical procurement, as illustrated in Figure 05 below.

**Figure 05: Procurement Ethics**

<b>The United Nations <i>Procurement Practitioner’s Handbook</i></b>	
	"Ethics is the basis on which most of the procurement related principles, such as fairness, integrity, and transparency, are based," and, "Organizations and professions often seek to address standards of conduct through the adoption of codes of conduct."
<b>The National Institute for Governmental Procurement <i>Code of Ethics and Public Procurement Practice: Ethical Procurement</i></b>	
	"...ethical principles should govern the conduct of every person employed by a public sector procurement ...organization," and a "public procurement organization should have an adopted code of ethics and require its employees to uphold the code and seek commitment to it by all those with whom they engage."
<b>The California Association of Public Procurement Officials <i>Global Best Practices</i></b>	
	"Ethical procurement prohibits breach of the public’s trust by discouraging a public employee from attempting to realize personal gain through conduct inconsistent with the proper discharge of the employee’s duties."

Source: Organizations listed above.

While procurement ethics may be standard for many public agencies, the Procurement Division confirmed the City of Sacramento has not established or published procurement guidelines, procurement ethics, or a procurement code of conduct. However, we discovered several dozen references to "Procurement Guidelines," a "Procurement Guidelines Manual," and "Procurement Ethics and Standards," in City procurement policies<sup>6</sup> even though those products do not exist. For example, if a Request for Proposal (RFP) is used as an alternative to competitive bidding, AP 4101 *Non-Professional Services* requires the use of provisions contained in nonexistent "Procurement Guidelines", as shown in Figure 06 below.

<sup>6</sup> AP 4002, AP 4101, and AP 4102 include several such references in the "Related Information" sections as well as throughout the policies' text.

**Figure 06: Exception to Noncompetitive Bidding Excerpt from AP 4101**

**(iii) Use of RFP process: A RFP process is used consistent with the provisions of the Procurement Guidelines.**

Source: City policy AP 4101 Non-Professional Services

The term “Procurement Guideline” or similar references appear more than 40 times in three different City procurement policies. While we support and recommend such guidance, in our opinion referencing standards that do not exist further exacerbates an unclear and confusing contracting environment.

In addition to being recognized as a best practice, codifying ethics and standards is essential to preserve the public trust. As the NIGP notes, “in the public sector where goods and services are funded by public expenditure, it is imperative that procurement operates ethically, with impartiality, transparency, and professionalism.” Procurement ethics and written standards could also help provide City employees with a standardized framework, establish responsibilities, and enhance accountability when questionable procurement activities occur.

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*In our opinion  
referencing standards  
that do not exist  
further exacerbates an  
unclear and confusing  
contracting  
environment.*

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## **RECOMMENDATION**

**We recommend the Finance Department:**

- 1. Establish a code of conduct or other codified ethics, guidelines, and standards.**

## **Procurement Guidance is Not in Line with City Code and Policy**

The decentralized nature of the City’s procurement function requires that individual departments execute and manage their own contracts, while the Procurement Division is responsible for ensuring compliance with City procurement policies and industry best practices. We found examples of procurement guidance that contradicted or obfuscated City Codes and City policies, such as products related to the Equal Benefits Ordinance and bid protest procedures.

### **Equal Benefits Ordinance**

City Code requires businesses entering into City contracts of a certain amount to provide the same benefits to employees with registered domestic partners as they provide to employees with spouses. This is referred to as the Equal Benefits Ordinance, or EBO, the purpose of which is to:

“...protect and further the public health, safety, convenience, and general welfare by requiring that public funds be expended in a manner so as to prohibit contractors from discriminating between employees with spouses and employees with domestic partners, and from discriminating between the spouses and domestic partners of such employees, in the provision of employee benefits.”

City policy supplements the EBO by providing guidance “about how to implement, conduct and enforce the provisions of the ordinance,” and requires all contracts eligible for EBO to contain “a signed EBO Declaration of Compliance.”<sup>7</sup>

City policy also requires the Procurement Division to monitor EBO compliance by conducting contract reviews, spot audits, or “other methods deemed necessary and appropriate by the Finance Director.” Additionally, the Department of Finance is required to periodically report on EBO requirements, compliance, and performance to other department directors to identify trends and enforce standards. According to the Department of Finance, these reports and analyses may have been completed early in the life of the EBO, but they have not been conducted in several years.

When the EBO was passed in 2004, it applied to contracts over \$25,000. This threshold was written into the City’s EBO policy and other procurement-related policies. In 2012, City Council passed an ordinance increasing the EBO threshold to contracts over \$100,000, but City procurement policies were never updated to reflect this new requirement. However, the Procurement Division has produced additional guidance to supplement City Codes and policies, such as “Contractor FAQs about EBO”, an “EBO Packet”, and a “Local Ordinance & Bid Preference Requirements Table”, all of which reflect the updated City Code EBO threshold of \$100,000. Figure 07 below illustrates the different thresholds directed by various guidelines.

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<sup>7</sup> An example of the Declaration of Compliance can be found in Appendix A of this report.

**Figure 07: Equal Benefits Ordinance Threshold Guidance**

Reference Title	Date of Reference	EBO Threshold
<b>City Code Chapter 3.54<sup>A</sup> (Original)</b>	April 1, 2005	\$25,000
<b>API 53 (City EBO Policy)</b>	April 1, 2005	\$25,000
<b>AP 4002 Public Projects</b>	February 2010	\$25,000
<b>AP 4101 (City Non-professional Services Policy)</b>	February 2010	\$25,000
<b>AP 4102 (City Professional Services Policy)</b>	February 2010	\$25,000
<b>City Code Chapter 3.54<sup>B</sup> (Amended)</b>	May 2, 2012	\$100,000
<b>EBO Contractor FAQ</b>	March 18, 2014	\$100,000
<b>EBO Packet</b>	December 22, 2016	\$100,000
<b>Local Ordinance &amp; Bid Preference Requirements Table</b>	April 17, 2017	\$100,000

Note A: City Council Ordinance 2004-061

Note B: City Council Ordinance 2012-012

Source: Auditor generated from City Code, City policies and other information available on the City's Procurement Services site.

In our opinion, conflicting requirements in the City Code, City policies, and other guidance may create unnecessary confusion in the contracting environment.

**Bid Protest Procedures**

Another example of inconsistent guidance involves the City's processes that allow unsuccessful bidders to protest contract awards. Bidders may file a bid protest for various reasons, such as to contest a City staff recommendation to award the contract to a particular bidder.

The process to protest an award depends on the type of contract. City Code describes protest procedures for Public Projects approved by City Council (required if the contract is \$100,000 or more), while protest procedures for Public Project awards not approved by City Council as well as awards for non-professional services are described in City policies; protests procedures are not addressed in the City's professional services policy. Figure 08 below shows some key differences between the processes.

**Figure 08: Bid Protest Guidance**

Type of Contract	Bid Protest Filed With:	Bid Protest Fees Paid To:	Bid Protest Heard by:
<b>Public Projects ≥ \$100,000 (City Code)</b>	City Clerk	City Clerk	Hearing Examiner
<b>Public Projects &lt; \$100,000 (City Policy)</b>	Contract Manager	Contract Manager	Department Director
<b>Non-professional Services &gt; \$5,000 (City Policy)</b>	Contract Manager	Contract Manager	Department Director

Source: Auditor generated from City Code 3.60 and City policies AP 4002 & AP 4101.



City Code further stipulates that the process described for City Council-approved Public Projects may only be applied to other contracts if that process is “specifically so provided in the request for bids for such contract”<sup>8</sup>. We found that the Procurement Division’s “Invitation for Bid” (IFB) templates located on their internal site include standard language requiring unsuccessful bidders to follow the process outlined in City Code 3.60, and do not reference City policies. However, an IFB is not required for services of \$25,000 or less; these contracts only require written quotations.

The Procurement Division also outlines bid protest procedures in its *Procurement 102: Bidding and Contracting Process* shown in Figure 09 below; however, the training implies City Code 3.60 applies to all bid protests and does not reference City policy.

**Figure 09: Procurement 102 Bid Protest Slide**

**Bid Protest**

- ▶ ***It's not personal; it's just business!***
- ▶ Offer to meet with the unsuccessful bidder to discuss the bid and the how it fell short. Sometimes an unsuccessful bidder just wants to vent their frustration.
- ▶ Bid protests must be filed and maintained in accordance with the provisions of **Sections 3.60.460 through 3.60.560** of the Sacramento City Code.
- ▶ A bid protest fee of **\$750** is required at the time of filing with the City Clerk's Office.
- ▶ Immediately contact your City Attorney and the Procurement Services office.
- ▶ Only bidders may file a protest.
- ▶ Bid award process **stops**.
- ▶ ***Document, document, document.***

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Source: City of Sacramento Procurement Division “Procurement 102” training

This standardized language and training material require protests of all awards for which an IFB is issued to process through the City Clerk and submit to a hearing examiner, rendering City policy procedures irrelevant. By failing to incorporate those policies’ procedures, the Procurement Division has limited

<sup>8</sup>Sacramento City Code Article X, Section 3.60.460

the available bid protest options and prevented City departments from managing bid protests they may otherwise process and adjudicate.

The EBO and bid protest examples illustrate how City Code, City policy, and other procurement guidance can be inconsistent, which may have resulted in the execution of contracts that do not meet the City's intent to prevent discrimination and/or promote transparency in its procurement activities.

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*The Procurement Division has limited the available bid protest options and prevented City departments from managing bid protests.*

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## RECOMMENDATIONS

**We recommend the Finance Department:**

- 2. Update EBO policies, templates, and other guidance for accuracy and consistency.**
- 3. Develop processes to ensure EBO analysis and reports are completed as required by City policy.**
- 4. Determine the City's intent regarding bid protests and update policies, templates, and other guidance for consistency.**

### **The City Could Benefit from Identifying Procurement Stakeholders and Clearly Defining Their Responsibilities**

According to the U.S. Government Accountability Office (GAO), "Having clearly defined roles and responsibilities of stakeholders in the acquisition process is a key element of an effective acquisition function."

To establish stakeholder roles and responsibilities, a necessary first step is identifying who the stakeholders are. While City guidance does not clearly identify procurement stakeholders, a Contract Cover/Routing Form<sup>9</sup> developed by the Office of the City Clerk is required for all contracts and includes the positions/functions shown in Figure 10<sup>10</sup>. City Code, City Charter, and City procurement policies define some responsibilities as outlined below.

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<sup>9</sup> An example of the Contract Cover/Routing Form can be found in Appendix B of this report.

<sup>10</sup> These positions are provided on the standardized contract routing form. Some departments, however, have modified the routing forms to add, subtract, or modify the positions listed.

**Figure 10: Procurement Stakeholder Roles and Responsibilities**

Routing Position	Stakeholder	Role/Responsibility
1	Project Manager	<ul style="list-style-type: none"> <li>Responsible for administering the performance of a contract</li> <li>May select contractors for services less than \$5,000 without bidding</li> <li>Solicits at least three bids for contracts between \$5,000 - \$25,000</li> <li>Prepares Requests for Proposals &amp; Requests for Qualifications</li> <li>Documents justification for non-competitive bidding</li> </ul>
2	Department Accounting Staff	<i>Duties related to contracts below \$25,000 not defined in City procurement policies</i>
3	Contract Services / Contract Manager	<ul style="list-style-type: none"> <li>Administers the contracting process on behalf of the Department</li> <li>Approves process for selection of services below \$5,000</li> <li>Documents if services between \$5,000 - \$25,000 are not available from three bidders</li> <li>Maintains all documentation of the procurement process</li> <li>Approves contract awards for services between \$5,000 - \$25,000</li> <li>Receives and files bid protests</li> <li>May reject bids</li> </ul>
4	Supervisor	<i>Duties related to contracts below \$25,000 not defined in City procurement policies</i>
5	Division Manager	<i>Duties related to contracts below \$25,000 not defined in City procurement policies</i>
6	City Attorney	<ul style="list-style-type: none"> <li>Approves standard contract forms</li> <li>Approves form and legality of contracts</li> <li>Consults on public disclosure and determinations of bidder nonresponsibility</li> </ul>
7	Department Director	<ul style="list-style-type: none"> <li>Approves sole source procurement requests</li> <li>May reject bids</li> <li>Conducts bid protest hearings</li> <li>May sign City contracts as delegated by the City Manager</li> </ul>
8	City Manager	<ul style="list-style-type: none"> <li>Executes City contracts less than \$100,000</li> </ul>
9	City Clerk	<i>Duties related to contracts below \$25,000 not defined in City procurement policies</i>

Source: Auditor generated from City Codes and policies.

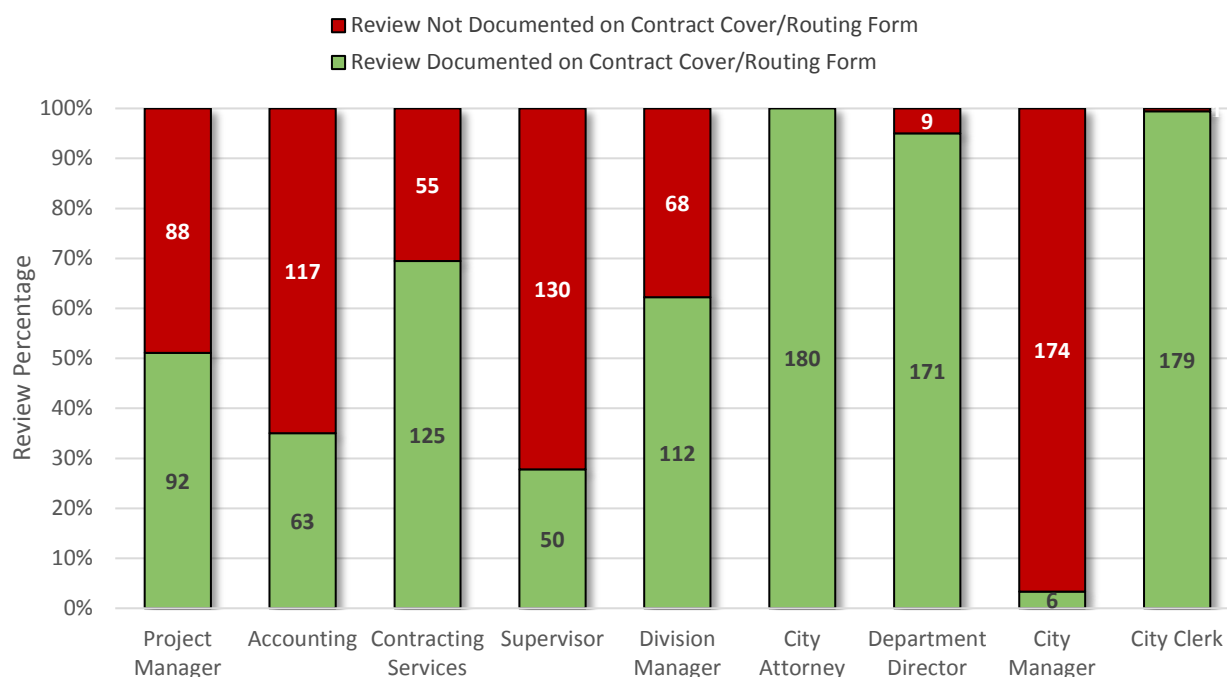
As noted in the chart above, the procurement responsibilities of key employees are either wholly undefined or ambiguous. For example, a Project Manager’s responsibility for “administering the performance of a contract” or a Contract Manager’s responsibility to “administer the contract process” are, in our opinion, vague descriptions that do very little to clarify those roles.

The roles of those positions as part of a contract quality control process is equally unclear. While City Code mandates that, “The [C]ity [M]anager shall institute control procedures for the execution of contracts and purchase orders,” such procedures, if they exist, do not appear to be documented.

Undefined roles and responsibilities for procurement stakeholders, especially in the quality control and review process, increases the risk that contracts may not be executed in compliance with City policy, procurement best practices, or contracting law. This unclear environment also decreases accountability, as few standards exist against which performance can be measured. For example, if roles are not clearly defined, contracts may not be reviewed and approved by the proper authority, or might not be reviewed or approved at all.

While assessing the Contract Cover/Routing Forms, we discovered several examples of what appeared to be the same person documenting reviews in multiple positions. In our opinion, the value of quality control relies on multiple and separate subject matter experts. Therefore, in instances where a single reviewer documented multiple reviews, we included only one of those reviews in our count. Figure 11 below illustrates reviews as documented on the routing sheets attached to our sample dataset of 180 contracts and supplements.

**Figure 11: Routing and Review of 180 Sampled Contracts**



Note: In our opinion, the low number of City Manager reviews is likely due the City Manager delegating signature authority to Department Directors and should not be interpreted as improper or neglectful.

Source: Auditor generated from contracts stored in CARA.

As evidenced above, contract routing was not consistent and some reviewers, such as supervisors, were included on only 28 percent of contracts. Additionally, we noted that the stakeholders with low rates of review generally do not have defined responsibilities in City procurement policies.

Clearly identifying and establishing responsibilities of the various procurement stakeholders should clarify who is responsible for which pieces of the procurement process, so all stakeholders have a basic understanding of their roles and know what to expect from one another. Additionally, consistent routing should help ensure the appropriate stakeholders are reviewing contract elements subject to their respective expertise. Finally, in our opinion, errors

and oversights may be greatly reduced by establishing a more formalized and documented quality control review process, such as a substantive review checklist accompanying each contract.

**RECOMMENDATIONS**

**We recommend the Finance Department and the City Manager:**

- 5. Define and publish specific roles and responsibilities of procurement stakeholders.**
- 6. Establish and publish contract quality control and review procedures.**

**We recommend the Finance Department and the City Clerk:**

- 7. Review and revise the routing cover sheet to ensure it accurately reflects value-added reviews and incorporate the routing requirements in City policy.**
- 8. Develop information system controls to ensure contracts and supplements are correctly routed and reviewed before execution.**

**Many Key Employees Did Not Receive Training Prior to Engaging in Procurement Activities**

City policies place the responsibility of contract administration primarily on project managers and contract managers. Figure 12 defines those positions per AP 4101, *Non-Professional Services*<sup>11</sup>.

**Figure 12: Contract Manager and Project Manager Definitions**

Contracts Manager	Project Manager
A position or employee authorized by the Department Director to administer the contracting process for non-professional services on behalf of the Department.	The employee designated as the project manager responsible for administering the performance of a contract for non-professional services.

*Source: City policy AP 4101 Non-professional Services*

California’s State Contracting Manual provides procurement direction for State agencies. While those directives do not extend to the City of Sacramento, they provide valuable examples of government procurement standards in the

<sup>11</sup> The City’s public projects and professional service policies mirror this language but replace “non-professional” with “public project” and “professional services”, respectively.

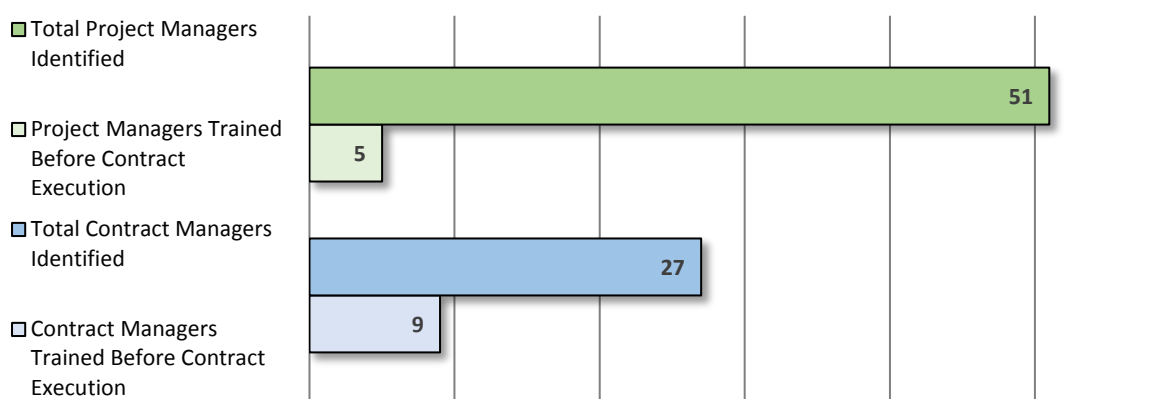
absence of City equivalents. The manual underscores the importance of knowledgeable contract management, specifically that:

“Regardless of the title used, the person assigned contract administration functions must be made aware of the expectations and requirements of the position. A contract administrator must...Have sufficient knowledge of contracting principles as it relates to their responsibilities in administering the contract.”

While the Procurement Division offers Procurement 101: *Procurement Basics* and Procurement 102: *Bidding and Contracting Process* classes, this training is not mandatory for any employees, including those engaged in public procurement. Based on our analysis, we determined most of the contract and project managers involved with our sample dataset were untrained.

The 180 contract documents in our dataset identified 51 different project managers and 27 different contract managers who were involved in implementing and managing those agreements. According to training records maintained by the Procurement Division, only 10 percent of those project managers and 33 percent of those contract managers had received Procurement 101 or Procurement 102 training from the City prior to executing contracts. Figure 13 compares the training numbers of those employees.

**Figure 13: Project Manager and Contract Manager Training Rates**

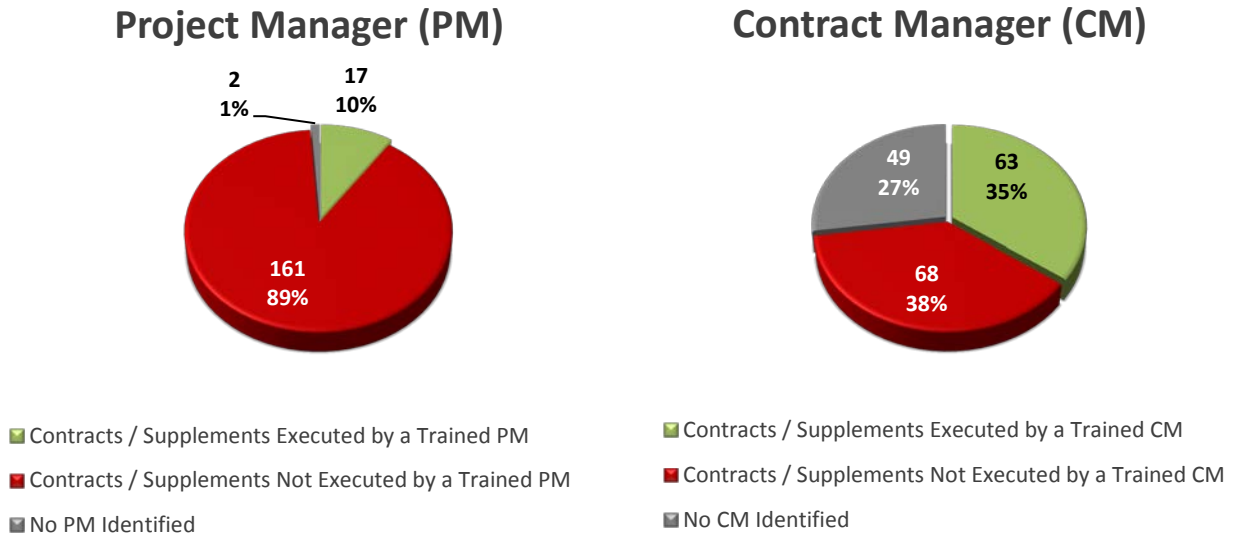


Source: Auditor generated from Procurement Division training records and contracts stored in CARA.

As shown above, the majority of employees performing primary contracting duties did not receive documented training in procurement basics or the bidding and contracting process, and may not have had sufficient knowledge to properly engage in public procurement.

Figure 14 below illustrates the number of contracts from our sample dataset that were worked on by key employees without documented training:

**Figure 14: Contracts and Supplements Executed by Trained Employees (out of 180 total)**



Source: Auditor generated from contracts stored in CARA

Training is essential to public procurement, as it provides employees with the information and skills necessary to engage in professional, accountable, ethical, and transparent procurement activities. Ensuring key procurement employees are trained in their roles and responsibilities (as discussed in the previous section) could reduce the risk of contract errors and increase accountability when guidance is not followed. In our opinion, mandatory training for employees who engage in procurement activities is necessary to best meet the City’s needs and serve the public interest.

**RECOMMENDATIONS**

**We recommend the Finance Department:**

- 9. Review and revise procurement training programs to ensure they are consistent with established City Code and City policy.**
- 10. Consider requiring City employees with procurement responsibilities to complete applicable training before engaging in procurement activities.**
- 11. Develop information system controls to ensure contracts are not developed, executed, or managed by employees who have not received applicable training.**

## The City Could Benefit from Clarifying the Use and Purpose of Purchase Orders

The Procurement Division develops contracting forms for non-professional and professional service agreements and maintains those forms on the Procurement websites. City policies require that the current applicable standard contract forms, as approved by the City Attorney's office, must be executed prior to starting any services. Additionally, "For all levels of contract award, contract documents must be fully executed (obtain all signatures and provide any required contract documents) prior to performance of the contract."

Despite this requirement, we found that use of these standardized forms is not consistent; specifically, purchase orders were frequently used as substitutes to the standard contracting forms developed by the Procurement Division.

The Procurement Division reported a common practice of using a purchase order, or "PO", in lieu of some contracts for low dollar amount services, usually less than \$5,000. As shown in Figure 15, the City of Sacramento Purchase Order Terms and Conditions appear to acknowledge that purchase orders may substitute for standard contracts despite City policy.

**Figure 15: Purchase Order Terms and Conditions Excerpt**

**1.) CONTRACT:** Unless the City of Sacramento ("City") and the Contractor have both signed a separate written agreement, or the City is procuring goods through a cooperative agreement, this Purchase Order ("PO") and any referenced attachments constitute the City's offer to Contractor and shall become a binding contract on Contractor's acceptance through acknowledgement or commencement of performance.

*Source: City of Sacramento Purchase Order Terms and Conditions.*

The Procurement Division warns that substituting purchase orders for service contracts is, "Not a good practice as the standard PO Terms and Conditions are geared toward the purchase of supplies, not services," and "unlike the City's standard agreement form, the PO does not require the supplier to acknowledge (sign) the PO." Purchase orders are essential to the payment process as they ensure funds are available and set aside to pay contractors for services. However, they appear to be inadequate replacements for service contracts.

While AP 4002 specifically allows using purchase orders in lieu of contracts for "work of \$5,000 or less", that policy only applies to public projects; similar language allowing purchase orders to substitute for other contracts is not included in AP 4101 or AP 4102. Figure 16 below shows the different definitions of "Purchase Order" in four different City publications.



**Figure 16: Purchase Order Definitions**

Source	Definition
<b>AP 4002 Public Projects</b>	A written authorization for a contractor to perform work at a specified price and over a specified period of time. Acceptance of the purchase order constitutes a contract and is legally binding on all parties.
<b>AP 4101 Non-Professional Services</b>	A written authorization for a contractor to supply goods or services at a specified price and over a specified period of time. Acceptance of the purchase order constitutes a binding contract.
<b>AP 4102 Professional Services</b>	A written authorization for a contractor to perform services at a specified price and over a specified period of time.
<b>Glossary of Procurement Terms</b>	The signed written acceptance of the offer from the supplier. In the absence of a contract, the purchase order serves as the legal and binding contract between both parties. If there is a contract, the purchase order merely serves as the payment vehicle and the method used to encumber funds for payment.

*Source: Auditor generated from City policies and "Glossary of Procurement Terms".*

The defined role of purchase orders is unclear and contradictory, which may contribute to this confused policy environment. Clearly defining and standardizing the use of purchase orders may help reduce risk to the City by ensuring departments are only utilizing purchase orders for their intended purpose.

## RECOMMENDATIONS

**We recommend the Finance Department:**

- 12. Determine the intent and purpose of purchase orders, and clarify their requirements and use in City guidance and templates.**
- 13. Develop information system controls to ensure purchase orders and contract templates are used appropriately.**

## **Finding 2: City Departments Did Not Ensure Contracts were Awarded and Executed in Accordance with City Code and City Policy**

Under the City’s decentralized procurement structure, the burden of soliciting, awarding, and executing contracts generally falls to the individual departments and offices. As illustrated in Finding 1, the Procurement Division is not included on standard contract routing and review, indicating that it is the responsibility of individual department employees to ensure compliance with procurement code, policies, and other guidance. During this audit, we determined City departments routinely failed to meet many contract execution requirements. Specifically, we found that:

- Sole source contracts were routinely awarded without appropriate authorization;
- City officers may have executed contracts without authority; and
- The City regularly executed agreements with contractors who did not have valid business operation tax certificates.

In our opinion, the City has not implemented quality control standards or information system controls to prevent the contracting violations we describe in this finding. By implementing the recommended standards and controls, the City can mitigate some of the inherent risk associated with improperly executed contracts.

### **Sole Source Contracts were Routinely Awarded Without Appropriate Authorization**

The NIGP refers to open competitive bidding as a “near universal statutory requirement” for public procurement. California’s state government has committed to “open and fair competition”; competitive bidding helps ensure the government receives good value for public expenditures and helps prevent corruption. Most governments allow some limited exceptions to open competition, including:

- Small direct purchases (low dollar amount discretionary purchasing);
- Emergency purchasing; and
- Sole source procurement.

According to the NIGP's *Public Procurement Guide for Elected and Senior Government Officials*:

"Sole source means that competition would be fruitless when the need can only be met by one provider. The concept itself is intuitive but its application can be controversial because it may rely on competing subjective interpretations about whether there truly is only one provider."

The NIGP goes on to warn that employees can be easily tempted to abuse sole source procurement, and therefore,

"Procurement officials are the best trained people to determine whether there is only one or more than one provider, and within an entity they should be the one authorized to make this judgment call."

The National Association of State Procurement Officials (NASPO) also recommends that governments "centralize review and approval of all sole source requests." An example of this practice is the State of California's requirement that State agencies receive approval from the Department of General Services prior to contracting for noncompetitively bid services.

The City uses guidance in procurement policies "to ensure fairness, open competition, and competitive pricing." To maintain a competitive procurement environment, AP 4101 *Non-Professional Services* requires sole source contracts for non-professional services to be "approved by the Department Director and Procurement Services Division Manager." By contrast, AP 4102 *Professional Services* and AP 4002 *Public Projects* only require the director of the department executing the contract to approve sole source procurement.

The City uses a Non-Competitive Bid/Contract Justification form<sup>12</sup> for sole source procurement request and approval. We determined these forms are typically routed to Procurement Division staff for approval as attachments to purchase order requisitions. However, City policy characterizes these forms as "requests for [a] restrictive method of procurement". Purchase orders, on the other hand, should be requested *after* a contract is signed. Approving noncompetitive bid requests at the same time as the purchase order requests (i.e. after the contract has been executed) effectively amounts to approving an exception to policy after the exception has occurred.

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***Approving noncompetitive bid requests...after the contract has been executed effectively amounts to approving an exception to policy after the exception has occurred.***

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<sup>12</sup> An example of the Non-competitive Bid Justification Form can be found in Appendix C of this report.

This process is also inconsistent with the City’s Non-professional Services procurement policy, in that the Procurement Division Manager is the approval authority for sole source bidding; no delegation authority appears to exist in that policy which would allow Procurement Division staff to approve sole source procurement on their manager’s behalf.

While City guidance attempts to mirror best practices for what should be a non-standard procurement method, the guidance narrowly applies to only non-professional services. This limited applicability allows professional services to be sole sourced without any review or input from procurement professionals. Additionally, in those instances where the Procurement Division is included in the sole source process, they generally do not approve the “request” until after the contract’s execution. In our opinion, this defeats the purpose of a procurement professional approving the noncompetitive bid justification. Extending the Procurement Division Manager’s review and approval to include professional services, as well as ensuring that review and approval occur before the contract is executed, will bring the City more in line with industry best practices and reduce the risk of improper sole source contracting.

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*Ensuring that review and approval occur before the contract is executed will bring the City more in line with industry best practices and reduce the risk of improper sole-source contracting.*

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## RECOMMENDATIONS

**We recommend the Finance Department:**

- 14. Consider requiring the Procurement Division Manager to authorize all sole source procurement requests, in addition to those for non-professional services.**
- 15. Identify the authority delegated to approve sole source requests during the Procurement Division Manager’s absence.**
- 16. Develop controls to ensure all requests for sole-sourcing are approved prior to awarding a sole source contract.**

### **Some City Officers May Have Executed Contracts Without Authority**

For the purposes of this report, the term “City Officers” refers to the City Manager and other “Appointive Officers” as authorized by the City of Sacramento Charter, including the City Clerk, City Treasurer, City Attorney, City Auditor, the Director of Public Safety Accountability, and the Independent Budget Analyst.

The City of Sacramento Charter clearly defines the authority and responsibility of the City Manager to contract on behalf of the City; article V § 61(h)

establishes the City Manager's duty "to execute, on behalf of the [C]ity all contracts, franchises, lease[s] or permits..."

Article IX § 116 further states that, "no monies shall be disbursed from the treasury without the approval of the [C]ity [M]anager or of another officer duly authorized by him," and Article XIV § 200 requires, "The [C]ity [M]anager, or his designated representatives, shall purchase, or contract for the purchase of, goods, equipment, materials, supplies, services, or for the undertaking of any public project..."

City Code further grants the City Manager specific authority to execute City contracts less than \$100,000 without City Council approval. While the City Charter and City procurement Codes do not specifically empower any other City Officer or employee to execute contracts for services without City Council approval, the City Manager may delegate signing authority. The current vehicle for this delegation is the City's Signing Authority Policy<sup>13</sup>, which states that, "Only City officers and employees with appropriate approval authority and accountability shall approve financial transactions and sign legally binding contracts to ensure responsible stewardship of City's resources."

This policy specifically delegates the City Manager's contracting authority to each of the City's department directors and allows certain other employees to sign some contracts on a limited basis. However, the Signing Authority Policy dated November 28, 2016 did not explicitly delegate contracting authority to City officers such as the City Auditor. While the policy specified that those officers were allowed to *delegate* authority, it stopped short of actually granting them any specific signing authority. Figure 17 describes the contracting authority and regulatory source of that authority for City agencies, as of November 2016.

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<sup>13</sup> Under the Charter and the City Code there are other sources of contract authority. For example, additional or separate authority may be granted directly by City Council resolution or motion.

**Figure 17: Signature Authority**

Department/Function	Contract Signatory	Source of Authority
Citywide	City Manager	City Charter, City Code
Convention& Cultural Services Department	Director	City Policy, Delegated from City Manager
Community Development Department	Director	City Policy, Delegated from City Manager
Economic Development Department	Director	City Policy, Delegated from City Manager
Finance Department	Director	City Policy, Delegated from City Manager
Fire Department	Chief	City Policy, Delegated from City Manager
Human Resources Department	Director	City Policy, Delegated from City Manager
Information Technology Department	Chief Information Officer	City Policy, Delegated from City Manager
Parks and Recreation Department	Director	City Policy, Delegated from City Manager
Police Department	Chief	City Policy, Delegated from City Manager
Public Works Department	Director	City Policy, Delegated from City Manager
Utilities Department	Director	City Policy, Delegated from City Manager
Community Services-Water Forum	Executive Director	City Policy, Delegated from City Manager
<b>Office of the City Attorney</b>	<b>No Explicit Authority</b>	<b>No Explicit Authority</b>
<b>Office of the City Auditor</b>	<b>No Explicit Authority</b>	<b>No Explicit Authority</b>
<b>Office of the City Clerk</b>	<b>No Explicit Authority</b>	<b>No Explicit Authority</b>
<b>Office of the City Treasurer</b>	<b>No Explicit Authority</b>	<b>No Explicit Authority</b>
<b>Independent Budget Office</b>	<b>No Explicit Authority</b>	<b>No Explicit Authority</b>
<b>Public Safety Accountability Office</b>	<b>No Explicit Authority</b>	<b>No Explicit Authority</b>

Source: City of Sacramento Signing Authority Policy dated November 28, 2016.

Despite the lack of explicit contracting authority, multiple City Officers or their assistants have contracted on behalf of the City. For example, the City Auditor signed a contract in February 2013 with The Network, Inc. (now NAVEX), a firm that provides third-party telephone hotline and case management database services for the City’s whistleblower program. Those services continued uninterrupted for over four years even though the City Auditor appeared to have no explicit authority to contract on behalf of the City at that time.

In our opinion, City Officers believed they were legitimately authorized to execute contracts, and we found no indications of abuse or fraudulent circumvention of the City Manager’s authority. Additionally, during this audit the City Manager and City Clerk revised the Signature Authority Policy to explicitly delegate City Manager authority to City Officers. While the revised policy now clearly establishes that authority, some contracts that were signed prior to the policy revision may still be in effect. In our opinion, the lack of explicit statutory or delegated authority at the time of execution may create unclear contractual environments regarding the terms, provisions, and liability for those contracts; supplementing those contracts still in performance to

recognize the revised signature authority may reduce the City’s risk and clarify the contracting environment.

**RECOMMENDATIONS**

**We recommend the City Manager:**

- 17. Consider a review of all currently active contracts signed by City Officers to determine the validity of those agreements and develop a plan to legitimize those agreements.**
- 18. Develop controls to ensure all contract signatories are authorized to sign contracts and supplements on behalf of the City.**

**The City Regularly Executed Agreements with Contractors Who Did Not Have Valid Business Operation Tax Certificates**

The City of Sacramento does not license businesses. Instead, the City requires any business or person engaged in business activity within the City to pay a Business Operations Tax (BOT) and maintain a valid tax certificate. General Provisions of both the Non-Professional Service Agreement and the Professional Service Agreement also contain language requiring service providers who contract with the City to obtain and maintain a valid BOT Certificate; certain types of businesses, such as some non-profit organizations, are exempt from the certificate and tax requirements.

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*Approximately 32 percent of the contractors in our sample dataset who were subject to the BOT did not have a valid tax certificate.*

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Businesses must remit taxes for each year they do business in the City. With certain exceptions, taxes are calculated based on gross receipts, and, as shown in Figure 18 below, range from a minimum of \$30 to a maximum of \$5,000, plus a \$1 State Fee; business operations in certain areas of the City are also subject to a Business Improvement Area charge.

**Figure 18: Business Operations Tax Calculations Based on Gross Receipts**

Gross Revenue	Calculated
≤\$10,000	Flat Tax of \$30
>\$10,000	\$30 flat tax + \$0.0004 per dollar in excess of \$10,000 (max annual tax of \$5,000)

*Source: Auditor generated based on City Code 3.08.*

Businesses operating within the City without a valid BOT Certificate represent lost revenue to the City. A search of the City’s Business Operation Tax Certificate database revealed that approximately 32 percent of the contractors in our sample dataset who were subject to the BOT did not have a valid tax certificate.

The BOT due from service providers is based on all receipts generated by operations within the City, regardless of whether those services are provided to the City government or another public or private entity. The amount of receipts is self-reported by the service provider annually, and the City imposes tax based on that amount. Without that self-reported figure, we currently have no reliable method to determine how much of a business's total revenue was generated within the City and therefore subject to the BOT. Accordingly, we referred only to the service providers' contracts with the City of Sacramento to calculate the minimum lost revenue from missing or expired tax certificates, as we could not determine that any other revenue was earned within the City.

Since the amount of tax is based on revenue earned in one year, we used the contract length to determine the minimum number of years the tax certificate was required (for example, a one-year contract would require at least one year of tax, and a five-year contract would require at least five years of tax). We also used only the contract's not-to-exceed amount as the contractor's revenue earned during that period. This methodology likely results in a conservative estimate of taxes due, as it does not account for any of the non-City contract revenue earned by those businesses.

In addition to unpaid tax revenue, City Code applies a \$15 penalty when the tax payment is 30 days overdue and an additional \$100 penalty when the tax payment is 60 days overdue. As described above, our calculations for penalties owed only include the time the company was under contract with the City, which likely results in a conservative estimate of penalties due. Figure 19 calculates the City's minimum tax and penalty revenue lost from the 30 contractors in our sample dataset without a BOT Certificate.



Figure 19: Overdue Business Operations Tax and Penalties

Contractor	Contract Amount	BOT Periods (years)	BOT Owed	Penalties	Total BOT & Penalties
Amador Stage Lines	\$25,000	1	\$36	\$115	\$151
Anna Gabriela Gonzalez-Cifuentes	\$2,500	1	\$30	\$115	\$145
Atteiona Hobby	\$1,500	1	\$30	\$115	\$145
Brandon Kennedy	\$2,400	1	\$30	\$115	\$145
Bryan Kennedy	\$2,400	1	\$30	\$115	\$145
Carmen-Jasmin Beltran-Alonso	\$99,500	4	\$144	\$460	\$604
Donald White Jr.	\$1,000	1	\$30	\$115	\$145
Eliodora Chamberlain	\$5,000	1	\$30	\$115	\$145
Francisca Garcia	\$1,500	1	\$30	\$115	\$145
Innersoul Band - Wihelm Meyer	\$1,500	1	\$30	\$115	\$145
Jennifer Massey	\$5,000	1	\$30	\$115	\$145
Jessica Hageman	\$2,000	1	\$30	\$115	\$145
Joe Raymond Garcia-Solsa	\$1,000	1	\$30	\$115	\$145
John Hofman	\$3,400	1	\$30	\$115	\$145
Jonathon Frazier	\$3,540	1	\$30	\$115	\$145
L&M Fence Rental Inc.	\$199,000	5	\$210	\$575	\$785
Leann Schummer	\$4,999	1	\$30	\$115	\$145
Loren Ditmore	\$5,000	1	\$30	\$115	\$145
Mark Roozen	\$5,480	1	\$30	\$115	\$145
Marlon Sanchez	\$1,500	1	\$30	\$115	\$145
Midnight Players c/o Melissa Corona	\$4,050	1	\$30	\$115	\$145
Morgan Parker	\$1,500	1	\$30	\$115	\$145
Nate Bogenschutz	\$5,000	1	\$30	\$115	\$145
O'Dell Ross	\$3,000	1	\$30	\$115	\$145
Pauline Marie	\$9,000	3	\$90	\$345	\$435
Rory Selem Medina	\$1,500	1	\$30	\$115	\$145
Russell Tao	\$5,000	1	\$30	\$115	\$145
Sean Alexander Marine Services, Inc.	\$16,256	2	\$60	\$230	\$290
USA Fence Company	\$3,933	1	\$30	\$115	\$145
Vivian T. Lee	\$10,000	2	\$60	\$230	\$290
			<b>\$1,319</b>	<b>\$4,715</b>	<b>\$6,034</b>

Source: Auditor generated from contracts in CARA and BOT regulations.

BOT Certificate status is easily determined from the City's public website. The BOT page is normally automatically updated daily, is publicly available for any internet user to view, and allows users to export data for additional analysis. Despite this ease of availability, contracts were still frequently awarded to

service providers who did not have current tax certificates. Establishing controls to ensure City contractors have and maintain a tax certificate could provide, at a minimum, several thousand dollars in revenue that the City is currently losing.

## **RECOMMENDATIONS**

**We recommend the Finance Department:**

- 19. Consider conducting a review of active City contractors' tax certificate status to recover overdue taxes and penalties.**
- 20. Develop controls to ensure contracts cannot be executed without a valid Business Operation Tax Certificate.**
- 21. Develop controls to monitor Business Operation Tax Certificates for expiration throughout the contract period.**

### **Finding 3: City Departments Failed to Ensure Contracts were Managed in Accordance with City Code and City Policy**

As discussed previously in this report, the City employs a decentralized procurement system, meaning that individual City departments and offices are responsible for their own procurement and project managers are “responsible for administering the performance of a contract.”

While terms and conditions such as the period of performance and the not-to-exceed amount are fundamental to a contract, there may be a legitimate need to amend the terms during the life of the contract. Amending contract terms requires a supplement, which is signed by both a designated City representative and the contractor. During our analysis of the sample dataset, as well as a review of specific agreements, we found that:

- Contract periods were frequently extended without authorization and contract supplements were frequently executed after the contract period had ended;
- Competitive procurement thresholds were routinely circumvented by supplementing contracts after execution;
- Many contracts lacked clearly defined periods of service; and
- Many contracts were signed after the service period had already started.

In our opinion, the strongest controls currently in place to prevent contract and supplement errors are the project managers and contract managers assigned to the contracts. However, these appear insufficient to ensure compliance with City procurement policies, and we recommend strict information system controls to prevent City employees from improperly managing contracts and supplements.

#### **Contract Periods were Frequently Extended Without Authorization and Contract Supplements were Frequently Executed After the Contract Period Had Ended**

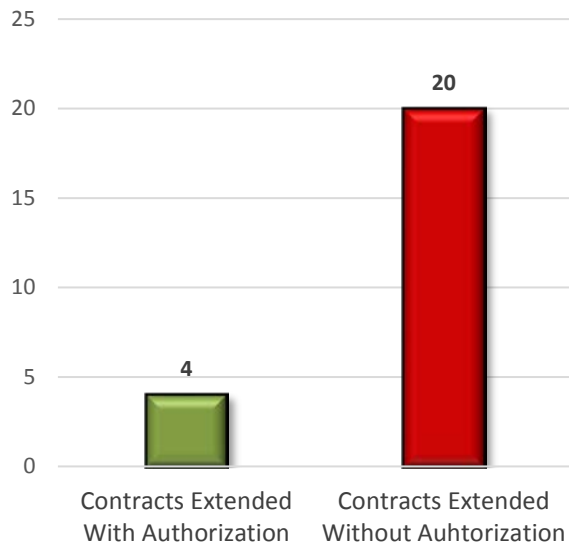
City procurement policies require that, “An extension or renewal of a contract must be authorized in the contract and must occur prior to expiration of the contract term to be valid.”

Standard City contract and supplement forms do not require dates in the signature block, therefore we could not always determine the exact execution date of a contract or supplement. While some contract forms include an “as of” date on the first page, this is not included in the standard supplement forms;

when a clear date of execution was absent, we relied on the City Clerk’s attestation date as the executed date of contract or supplement.

Our sample dataset included 31 original contracts that had been supplemented, and their 71 supplements. Contract periods were extended in 24 of those 31 supplemented contracts. Despite the policy requirements that any extensions must be authorized in the original contract, we found this authorization missing in 83 percent of the extended contracts, as shown in Figure 20 below.

**Figure 20: Contract Extension Authorization**



Source: Auditor generated from contracts stored in CARA.

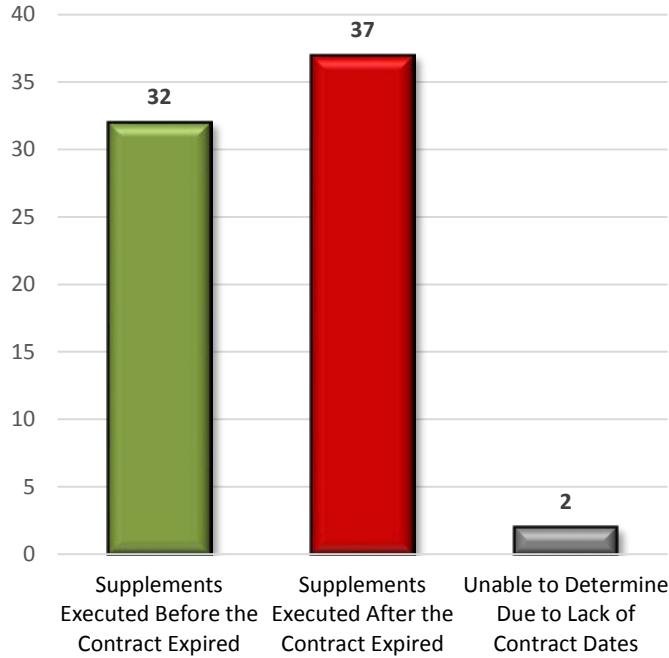
Additionally, City departments routinely did not follow the requirement to execute extensions before a contract expired. As shown in Figure 21 below, only 45 percent of the contract supplements we reviewed (32 of 71) were executed before the contract expired, while 52 percent of extensions (37 of 71) were executed after the contract had expired.

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***52 percent of extensions were executed after the contract had expired.***

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**Figure 21: Extension Timing for 71 Contract Supplements**



Source: Auditor generated from contracts stored in CARA.

Noncompliance with contract extension requirements is further illustrated in Figures 22 and 23, below. As highlighted in the figures, these contracts were extended after they expired; additionally, neither of the contracts authorized such extensions, as required by City policy.

**Figure 22: Department of Parks and Recreation Contract with Wood Rodgers, Inc.**

Contract	Supplement	Executed	Start Date	End Date	Change to the Not-to-Exceed Amount	Total Not-to-Exceed Amount
2015-1622	0	09/28/15	09/28/15	12/31/15	\$17,600	\$17,600
2015-1622 <sup>A</sup>	1	10/19/15	Unspecified	Unspecified	\$1,100	\$18,700
2015-1622 <sup>A</sup>	2	12/01/15	Unspecified	Unspecified	\$1,500	\$20,200
2015-1622	3	01/22/16	Unspecified	Unspecified	\$2,900	\$23,100
2015-1622	4	08/03/16	Unspecified	12/31/16	\$1,950	\$25,050

Note A: Supplements 1 and 2 only amended the scope and not-to-exceed amount of the contract; they did not extend the contract period.

Source: Auditor generated from contracts in CARA.

**Figure 23: Police Department Contract with Iron Mountain Films**

Contract	Supplement	Executed	Start Date	End Date	Change to the Not-to-Exceed Amount	Total Not-to-Exceed Amount
2015-1420	0	07/31/15	07/31/15	10/31/15	\$24,823	\$24,823
2015-1420	1	05/20/16	Unspecified	Unspecified	\$1,500	\$26,323
2015-1420	2	12/02/16	Unspecified	12/31/16	\$300	\$26,623

Source: Auditor generated from contracts in CARA.

In addition to the extensions not being executed in accordance with City procurement policy, we also noted that the two contracts above were initially written for less than \$25,000, but were later supplemented beyond \$25,000, requiring advertisement and formal selection. We discuss the regularity of this occurrence in the next section.

Requiring potential extensions to be authorized in the original agreement would help ensure the contract’s total possible value is calculated correctly and is therefore subjected to the appropriate requirements and approval level, as discussed later in this finding. Additionally, executing an extension before the contract expires prevents a gap in the contract coverage period; any services performed during a gap of non-coverage or questionable coverage could expose the City or the contractor to unnecessary liability and create uncertainty regarding the service terms. Finding 4 describes an example of an 18-month gap between one supplement expiring and the next supplement being executed. During this period, the City paid over \$53,000 to the contractor, even though no contract was in place.

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***The City paid over \$53,000 to the contractor, even though no contract was in place.***

---

The City currently has no system controls in place to ensure contract terms and supplements are established and executed according to City policy. In our opinion, this lack of controls has resulted in the improperly executed supplements noted above, and the procurement threshold violations discussed in the next section.

**RECOMMENDATION**

**We recommend the Finance Department:**

- 22. Develop information system controls to ensure contract supplements are only executed if they are authorized in the contract and are only executed before the contract or supplement expires.**

## Competitive Procurement Thresholds Were Routinely Circumvented Through Supplementing Contracts After Execution

The NIGP recognizes that public procurement is too complex for a “one-size-fits-all” approach, and different requirements based on dollar thresholds is common. Different levels of competition, oversight, and approval are appropriate, as “more care should be taken when there is more money or complexity at stake.” City procurement requirements are generally separated into four categories based on contract amounts as shown in Figure 24 below.

**Figure 24: Contract Solicitation and Approval Thresholds**

Contract Amount	Solicitation Method	Approval Level
≤ \$5,000	Selected at discretion of Project Manager	City Manager <sup>A</sup>
> \$5,000 ≤ \$25,000	Solicit a minimum of 3 quotes	City Manager <sup>A</sup>
> \$25,000 < \$100,000	Advertisement and IFB or RFP/RFQ	City Manager <sup>A</sup>
≥ \$100,000	Advertisement and Formal Bidding or RFP/RFQ	City Council

Note A: Generally delegated to Department Directors and City Officers

Source: Auditor generated from City Code and City Policy.

City procurement policies require that:

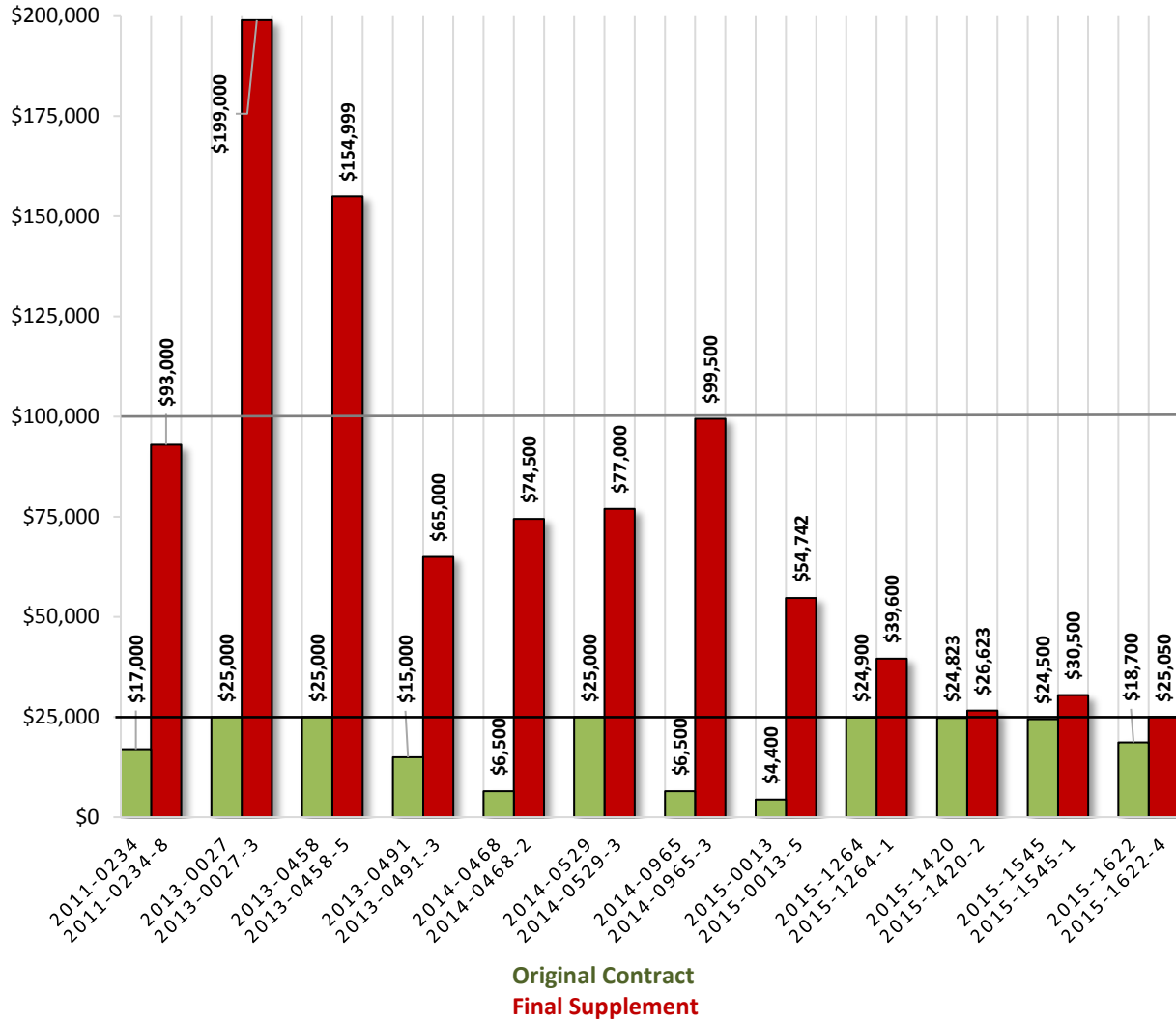
“the contract amount shall be calculated based on the full cost of any term extensions provided for in the contract (e.g., the amount for a two-year contract in the amount of \$40,000 per year, with an optional extension for year 3, shall be based on the total three-year term, for a contract amount of \$120,000),”<sup>14</sup>

As noted previously, City policy also requires extensions and renewals to be authorized in the contract. Based on those requirements, the maximum possible term (total time period of the original contract plus all authorized extensions) and the maximum possible not-to-exceed amount of an agreement should be determined before the execution of the contract; as a result, the correct procurement method should also be identifiable before the contract is executed. However, 12 of the 31 supplemented contracts in our sample (39 percent) may have circumvented competitive procurement. We found those 12 contracts were initially written for \$25,000 or less, then subsequently supplemented beyond the threshold that would have required stricter competitive processes had they originally been written for more than \$25,000.

<sup>14</sup> This language is from AP 4101 Non-Professional Services. Nearly identical language is found in AP 4102 Professional Services.

Figure 25 below compares the original contract amounts and the total amounts for the 12 contracts supplemented beyond \$25,000.

**Figure 25: Contracts Supplemented Beyond the Open Competition Threshold**



Source: Auditor generated from contracts stored in CARA.

In total, the 12 contracts identified above exceeded their original amounts by more than four times, from an original average of \$18,110 to a supplemented average of over \$78,000. Meanwhile the total value of those contracts eventually grew from \$217,323 to more than \$939,000.

In addition to the contracts represented above, the City Auditor’s Whistleblower hotline contract with The Network, Inc. (The Network) also exceeded procurement thresholds. The original contract was awarded in February 2013 and written for less than \$12,000, after an informal solicitation (allowed for



contracts of \$25,000 or less). Over the next four years, however, services from The Network continued without a new contract being executed.<sup>15</sup> As of May 2017, the total value of this contract exceeded \$48,000, well past the \$25,000 threshold for open competitive procurement.

City policy requires advertised competitive procurement for contracts above \$25,000. However, as demonstrated in Figure 25 above, our three-month dataset revealed the City executed over \$639,000 in contract supplements above that \$25,000 threshold and that should have been subjected to open competition. In our opinion, this oversight was a result of the inadequate training addressed in Finding 1 as well as a lack of quality and system controls. Establishing strict controls to ensure contract amounts are correctly identified before contract execution, and to prevent contracts from being supplemented beyond the applicable procurement threshold, will help ensure the City properly employs competitive procurement practices to best protect the interest of the public.

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*The City executed over \$639,000 in contract supplements...that should have been subjected to open competition.*

---

## RECOMMENDATIONS

### We recommend the Finance Department:

- 23. Review the selection and approval thresholds to determine if they meet the City’s procurement intent, and adjust thresholds if necessary.**
- 24. Develop information system controls to ensure bids and contracts are initially written to the appropriate thresholds.**
- 25. Develop information system controls to ensure contracts are not supplemented beyond the established thresholds without the appropriate selection and approval process.**

### Many Contracts Lacked Clearly Defined Periods of Service

City policies provide guidance for multi-year contracts and establish requirements for extending service terms, as discussed in the section above. Those same policies also limit contract terms, including all extensions, to no more than five years<sup>16</sup>. City Code requires that a “contract shall specify the time within which the supplies or non-professional services shall be furnished to the city”, and the California State Contracting Manual considers the “term for the

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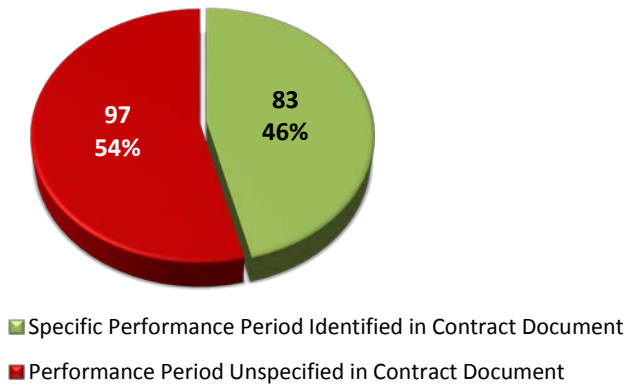
<sup>15</sup> Supplement 2013-0218-1 was executed in May 2017.

<sup>16</sup> The five-year limit may be exceeded under special circumstances with the City Manager’s approval.

performance or completion of the contract (dates or length of time)” to be a required element of a valid contract. Specific periods of service could also provide a metric for the City to use when determining reasonable contracting costs and evaluating contractor performance.

As shown in Figure 26 below, we found that only 46 percent of the contracts and supplements in our sample included specific start and end dates.

**Figure 26: Clearly Identified Contract Periods**



Source: Auditor generated from contracts stored in CARA.

As discussed earlier in this report, requirements for contract extensions are included in City policy. However, that policy cannot be followed if the periods of performance are not clearly defined in the contract. Failing to identify specific performance periods also creates uncertainty in the enforceability of a contract and may prevent City employees from ensuring they comply with City Code and terms of the contract.

For example, the City Auditor’s February 2013 contract with The Network included at least six different references to the contract’s performance period; some of which were vague and ambiguous while others contradicted or obfuscated each other. These references are listed in Figure 27 below.

**Figure 27: Contract Period Excerpts from the City Auditor’s Contract with The Network, Inc.**

<b>Exhibit A, Section 5, Time of Performance</b>	<i>“The services described herein shall be provided during the period, or in accordance with the schedule, set forth in the scope of services.”</i>
<b>Exhibit A, Section 4, Scope of Service</b>	<i>“The services provided shall be as set forth in Attachment 1 to Exhibit A, attached hereto and incorporated herein.”</i>
<b>Attachment 1 to Exhibit A, Section 9(a), Initial Term of Sales Order</b>	<i>“The duration of the Initial Term of-provision of any Services under this Agreement shall be set forth on a Sales Order but in any event shall have a minimum term of one (1) year.”</i>
<b>Attachment 1 to Exhibit A, Section 9(b) Auto Renewal</b>	<i>“The initial term of any Sales Order shall automatically renew thereafter for successive terms of one (1) year...”</i>
<b>Attachment 1 to Exhibit B, Section 1, Term</b>	<i>“The Initial term of this Agreement shall be one (1) year commencing upon the Effective Date and shall thereafter automatically renew in accordance with the terms set forth in the Subscription Terms.”</i>
<b>Exhibit D, Section 9, Term; Suspension; Termination</b>	<i>“This Agreement shall become effective on the date that it is approved by both parties, set forth on the first page of the Agreement, and shall continue in effect for one (1) year from the effective date.”</i>

Source: Auditor generated from City contract #2013-0218.

It is unclear whether the contract was written for a single year, or an initial one-year term followed by automatic one-year renewals. Different procurement actions would be required depending on whether the contract was meant to cover only a single year or was meant to auto-renew.

If the language was interpreted to indicate a single year contract with no authorized extensions, the result would be a one-year Professional Service Agreement valued at \$11,605. At that level, the informal bid solicitation conducted by the City Auditor would have been appropriate. To continue service beyond the one year stipulated in the contract however, the City Auditor should have conducted another price solicitation and executed a new contract in February 2014 (which did not occur).

The contract could also be interpreted to “auto-renew”, resulting in an initial one-year contract potentially followed by four one-year extensions (City policy limits contracts to a maximum period of five years), the value of which would total at least \$58,025 (\$11,605 per year X 5 years). This level of contract would have required a Request for Proposal (RFP) and advertising on the City website; the City Auditor did not utilize this procurement method.

Service with The Network continued uninterrupted and without a new contract or contract supplement until May 2017 (when the first contract supplement was executed), during which time the City made over \$39,000 in payments. In our opinion, this indicates the contract more closely matches the ‘auto-renewal’ interpretation above. Therefore, the contract is most appropriately classified as a professional service agreement exceeding \$25,000; however, the lack of clarity in the contract language unnecessarily obfuscates the terms of the contract.

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*The lack of clarity in the contract language unnecessarily obfuscates the terms of the contract.*

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Establishing requirements and controls to clearly define periods of performance would not only bring the City in line with procurement best practices, but would also help establish and better identify procurement thresholds.

## RECOMMENDATION

**We recommend the Finance Department:**

- 26. Establish clear standards regarding periods of performance and develop information system controls to ensure bids and contracts include specific periods of performance.**

## **Many Contracts were Signed After the Service Period Had Already Started**

City policy establishes that, “For all levels of contract award, contract documents must be fully executed (obtain all signatures and provide any required contract documents) prior to performance of the contract.”

California’s State Contracting Manual<sup>17</sup> also recognizes that performing contract services prior to signing a contract is poor practice, and specifically prohibits contract administrators from instructing a contractor to start work before the contract is fully executed.

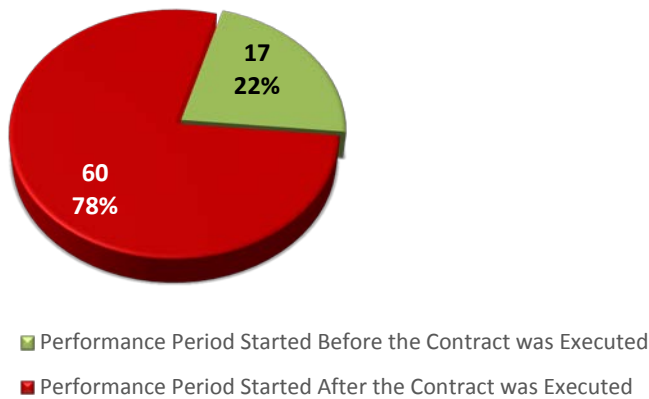
City Contract signature blocks do not require a date and, except for the City Clerk’s attestation, contract signatures are generally not dated. Without a signature date, there is no obvious indication of when a contract should be considered signed or “fully executed”, making it difficult or impossible for the City or its contractors to easily ensure services are only performed after the contract is executed.

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<sup>17</sup> As noted previously, this manual only applies to State agencies and State employees.

We found that 77 of the 109 original contracts in our sample dataset (71 percent) included both specific effective dates and specific periods of performance. As shown in Figure 28 below, 22 percent of those contracts included a performance period that started before the contract was executed.

**Figure 28: Contract Execution Dates Relative to Performance Periods**



Source: Auditor generated from contracts stored in CARA.

As noted throughout this finding, City contract dates are often vague or undefined, and the requirements stemming from those dates (for example, executing supplements and recognizing not-to-exceed thresholds) are often not accomplished in accordance with City regulations and procurement best practices. In our opinion, these unspecified or undefined execution dates coupled with vague performance periods create unnecessary uncertainty in the contracting environment and may increase the risk of liability, poor performance, or inability to enforce contract terms. Developing and enforcing performance and execution date standards would provide a baseline for contract calculations and other regulatory requirements, as well as establish a performance metric against which contract management can be evaluated.

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*Unspecified or undefined execution dates coupled with vague performance periods create unnecessary uncertainty.*

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## RECOMMENDATIONS

**We recommend the Finance Department:**

- 27. Revise contract forms to include a signature date.**
- 28. Develop information system controls to ensure contracts are fully executed prior to any service performance.**

## **Finding 4: Internal Controls were Insufficient to Prevent Inappropriate Payments to Contractors**

No centralized controls exist within either the Procurement Division or the Accounts Payable Division to prevent the City from paying for uncontracted services or from overspending contracts. Purchase orders and payments are processed and approved in the City's accounting system (eCAPS), while contracts themselves are stored in the City's content management system (CARA). The Procurement Division does require City staff to reference contract numbers in purchase order requests; in our opinion, however, this process is insufficient to prevent payment errors. Specifically, we found:

- Some contractors performed services and received payment without a valid contract in place; and
- Some contractor payments exceeded contract limits.

Contracts are legally binding and enforceable by law. Therefore, both the City and the contractor may give up legal protections when they receive or perform services without a valid contract in place. In addition, contract not-to-exceed amounts serve to ensure public procurement is appropriately subjected to the rigors of open competition; exceeding those limits may circumvent procurement policy and best practices. Centralized system controls should be established to prevent purchase orders and payments from being processed in the absence of a valid contract, and to prevent overpaying contracts.

### **Some Contractors Performed Services and Received Payment Without a Valid Contract in Place**

Contracts serve a number of important purposes. They create legally binding and enforceable agreements between two parties, they protect the City while mitigating risk, and they establish and clarify provisions of agreements. To determine whether current controls prevented the City from paying for uncontracted services we reviewed invoices, payment vouchers, purchase orders, and contracts associated with L&M Rental Fence, Inc., a company with a long history of City contracts for \$25,000 or less.

L&M Rental Fence has been providing services to the City for more than eight years. We located six contracts or contract supplements with L&M Rental Fence in CARA, the first of which (contract #2008-0994) was executed in October 2008.

We compared those six contracts and supplements to the nearly 750 invoices paid to L&M Rental Fence between October 21, 2008 and June 30, 2017, and

determined which contracts were in effect when those invoices were received, as shown in Figure 29 below.

**Figure 29: L&M Rental Fence Contract and Invoice History**

Dates	Contract	Executed	End Date	Amount Invoiced
10/21/08 - 12/01/08	2008-0994	10/21/2008	12/01/2008	\$3,442
12/02/08 - 04/21/09	No Contract	N/A	N/A	\$11,292
04/22/09 - 05/27/10	2009-0439	4/22/2009	5/27/2010 <sup>18</sup>	\$24,881
05/28/10 - 12/31/12	No Contract	N/A	N/A	\$67,492
01/01/13 - 04/17/13	2013-0027	1/1/2013	4/17/2013 <sup>19</sup>	\$8,379
04/18/13 - 12/31/13	2013-0027-1	4/18/2013	12/31/2013	\$30,238
01/01/14 - 07/13/15	No Contract	N/A	N/A	\$53,295
07/14/15 - 02/17/16	2013-0027-2	7/14/2015	6/30/2016	\$24,389
02/18/16 - 06/30/17	2013-0027-3	2/18/2016	12/31/2017	\$44,049
<b>Under Contract</b>		<b>4 years, 2 months</b>		<b>\$135,378</b>
<b>Not Under Contract</b>		<b>4 years, 6 months</b>		<b>\$132,079</b>
<b>Total</b>		<b>8 years, 8 months</b>		<b>\$267,457</b>

Source: Auditor generated from CARA and eCAPS data.

The table above illustrates the City continually paid for services provided by L&M Rental Fence for nearly nine years despite being under contract for less than half that time. Additionally, 49 percent of the \$267,000 paid to that company was invoiced during non-contract periods.

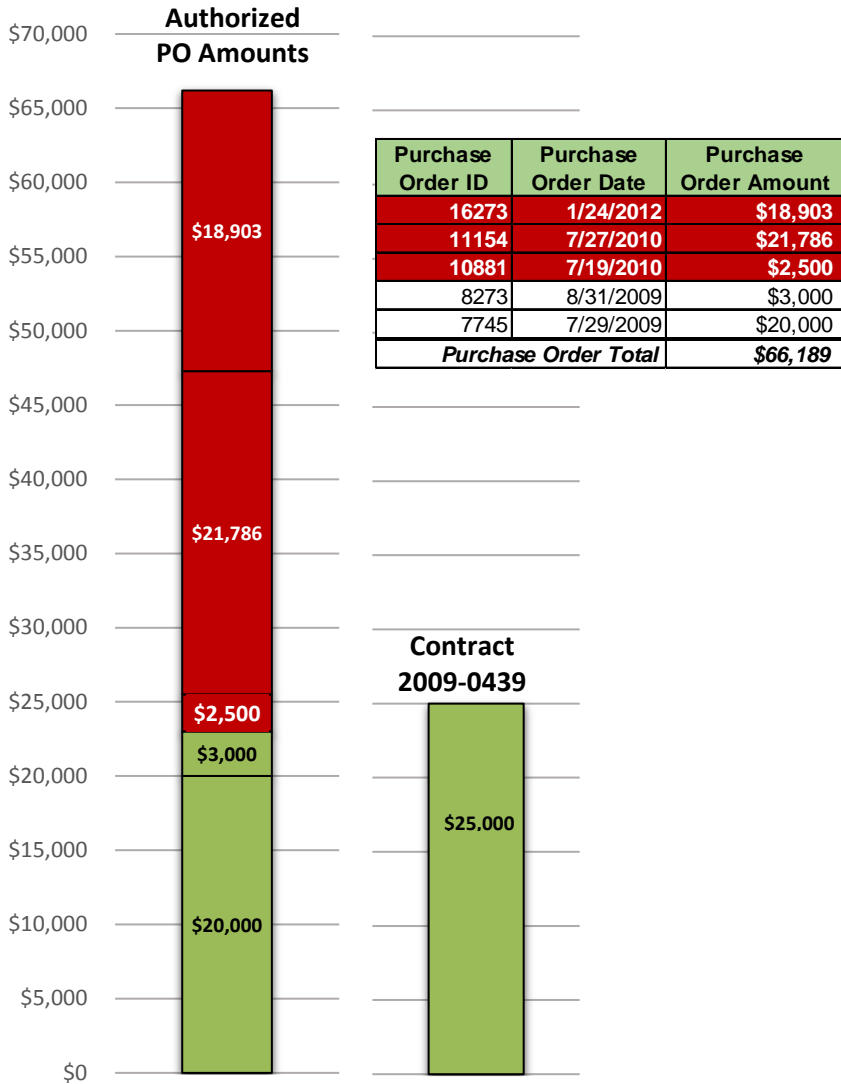
As noted in Finding 1, purchase orders are used to set aside, or encumber, funds to pay for contracted services. In that sense, purchase orders could be

<sup>18</sup> This contract was written with a performance period of 4/22/09-12/1/08. As the end date appears to be an error, and no other period is specified in the contract, we established an end date of 5/27/2010 based on the date the total amount of the contract was reached by invoice.

<sup>19</sup> This contract does not specify an end date. For the purposes of this chart, we used an end date that coincided with the execution of the contract's first supplement.

considered a type of control against paying for uncontracted services. However, that control fails when purchase orders are authorized against expired contracts or when no contract exists at all. Figure 30 below illustrates how three purchase orders totaling more than \$43,000 were authorized against an expired contract with L&M Rental Fence.

**Figure 30: Purchase Orders Authorized Against Contract 2009-0439<sup>19</sup>**



Contract Number	Contract Executed	Performance Start	Performance End	Not-to-Exceed Amount
2009-0439	4/22/2009	4/22/2009	5/27/2010	\$25,000

Source: Auditor generated from contracts stored in CARA and Purchase Orders stored in eCAPS.

As shown in Figure 30, the Procurement Division continued authorizing purchase orders more than 18 months after the contract expired, which allowed



the company to invoice the City for more than \$58,000 against a \$25,000 contract. Establishing strong, centralized system controls could help prevent purchase orders from being authorized against expired or nonexistent contracts.

## RECOMMENDATIONS

We recommend the Finance Department:

29. Develop information system controls to ensure purchase orders are only authorized with a valid contract in place.
30. Develop information system controls to ensure invoices are not paid without a contract in place.

### Some Contractor Payments Exceeded Contract Limits

California's State Contracting Manual identifies "consideration" as one of the elements of a valid contract and notes that, "The contract must clearly express the maximum amount to be paid and the basis on which payment is to be made." City contracts contain similar verbiage, as shown in Figure 31 below.

Figure 31: City Contract Payment Provisions

**Payment.** CITY shall pay CONTRACTOR for the services specified in Section 2 above at the times and in the manner set forth in Section 19 of the General Provisions. Payment to CONTRACTOR under this Agreement shall not to exceed the total amount of \$ \_\_\_\_\_.

CONTRACTOR shall be paid for the performance of services at the hourly rate, daily rate, flat fee, lump sum or other rate as set forth in Exhibit A or Exhibit B, as appropriate, attached hereto and incorporated herein.

CONTRACTOR shall not be compensated for services outside the scope of services specified in Section 2 above or in excess of the amount set forth above without prior written approval of the CITY.

Source: City's template for Non-professional Service Agreement of \$25,000 or Less.

Since a contract is a legal agreement between the City and a contractor, purchase orders and payments that exceed that agreement could constitute a violation of the contract terms shown above. We examined payments made against 25 contracts and supplements from our sample dataset; City payments exceeded contract limits for 10 of the 25 (40 percent) contracts we examined, as shown in Figure 32 below.

**Figure 32: Payments Made in Excess of Contract Limits**

Contract	Project Name	Not to Exceed Amount	Amount Paid	Overspent
2013-0458-1	Veterinary Services	\$50,000	\$52,680	\$2,680
2013-0458-2	Veterinary Services	\$50,000	\$57,045	\$7,045
2013-0458-3	Veterinary Services	\$90,000	\$102,360	\$12,360
2013-0458-4	Veterinary Services	\$99,999	\$113,115	\$13,116
2014-0375-2	Sign Ordinance, ESC	\$7,600	\$11,569	\$3,969
2014-0375-3	Sign Ordinance, ESC	\$10,600	\$15,214	\$4,614
2014-0468	Cops & Clergy	\$6,500	\$7,342	\$842
2014-0529-2	Veterinary Services	\$47,000	\$50,551	\$3,551
2014-0965	Cops & Clergy	\$6,500	\$15,939	\$9,439
2014-0965-1	Cops & Clergy	\$24,500	\$29,419	\$4,919

Source: Auditor generated from contracts and payment vouchers stored in CARA

The 10 contracts and supplements above were overspent by an average of \$6,253, or 33 percent. Of particular note are payments for services provided under contract supplements **2013-0458-3** and **2013-0458-4** (highlighted above), which brought the total payments for those series of contracts to more than \$100,000, the threshold at which City Code requires service expenditures to be approved by City Council. In our opinion, caution should be exercised when executing contracts and supplements that approach \$100,000, as overpayments may inadvertently exceed the City Manager’s contracting authority.

As noted above, no centralized process exists to prevent the City from making payments in excess of contract limits. A survey of City departments revealed that individually-developed spreadsheets or monitoring purchase orders are frequently used methods to track spending against contracts. Based on the information presented above, these decentralized department-developed processes appear insufficient to prevent overspending contracts. A centralized system that integrates payments, purchase orders, and contracts could provide system controls to prevent overspending.

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**Caution should be exercised when executing contracts and supplements that approach \$100,000, as overpayments may inadvertently exceed the City Manager’s contracting authority.**

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**RECOMMENDATIONS**

**We recommend the Finance Department:**

- 31. Develop information system controls to ensure purchase orders stay within a contract’s not-to-exceed limit.**
- 32. Develop information system controls to ensure employees do not authorize payments that exceed a contract’s not-to-exceed limit.**

# Appendix A: Equal Benefits Ordinance Declaration of Compliance

## DECLARATION OF COMPLIANCE Equal Benefits Ordinance

Name of Contractor: [REDACTED]

Address: [REDACTED]

The above named Contractor ("Contractor") hereby declares and agrees as follows:

1. Contractor has read and understands the Requirements of the Non-Discrimination In Employee Benefits Code (the "Requirements") attached hereto as Exhibit E.
2. As a condition of receiving this Agreement, Contractor agrees to fully comply with the Requirements, as well as any additional requirements that may be specified in the City of Sacramento's Non-Discrimination In Employee Benefits Code codified at Chapter 3.54 of the Sacramento City Code (the "Ordinance").
3. Contractor understands, to the extent that such benefits are not preempted or prohibited by federal or state law, employee benefits covered by the Ordinance are any of the following:
  - a. Bereavement Leave
  - b. Disability, life, and other types of insurance
  - c. Family medical leave
  - d. Health benefits
  - e. Membership or membership discounts
  - f. Moving expenses
  - g. Pension and retirement benefits
  - h. Vacation
  - i. Travel benefits
  - j. Any other benefit offered to employees

Contractor agrees that if Contractor offers any of the above-listed employee benefits, Contractor will offer those benefits, without discrimination between employees with spouses and employees with domestic partners, and without discrimination between the spouses and domestic partners of such employees.

4. Contractor understands that Contractor will not be considered to be discriminating in the provision or application of employee benefits under the following conditions or circumstances:
  - a. If the actual cost of providing a benefit to a domestic partner or spouse exceeds the cost of providing the same benefit to a spouse or domestic partner of an employee, Contractor will not be required to provide the benefit, nor shall it be deemed discriminatory, if Contractor requires the employee to pay the monetary difference in order to provide the benefit to the domestic partner or to the spouse.
  - b. If Contractor is unable to provide a certain benefit, despite taking reasonable measures to do so, if Contractor provides the employee with a cash equivalent Contractor will not be deemed to be discriminating in the application of that benefit.
  - c. If Contractor provides employee benefits neither to employee's spouses nor to employee's domestic partners.
  - d. If Contractor provides employee benefits to employees on a basis unrelated to marital or domestic partner status.
  - e. If Contractor submits written evidence of making reasonable efforts to end discrimination in employee benefits by implementing policies that will be enacted before the first effective date after the first open enrollment process following the date this Agreement is executed by the City of Sacramento ("City"). Contractor understands that any delay in the implementation of such

## Appendix A: Equal Benefits Ordinance Declaration of Compliance (Continued)

- policies may not exceed one (1) year from the date this Agreement is executed by the City, and applies only to those employee benefits for which an open enrollment process is applicable.
- f. Until administrative steps can be taken to incorporate nondiscrimination in employee benefits. The time allotted for these administrative steps will apply only to those employee benefits for which administrative steps are necessary and may not exceed three (3) months from the date this Agreement is executed by the City.
  - g. Until the expiration of a current collective bargaining agreement(s) if employee benefits are governed by such collective bargaining agreement(s).
  - h. Contractor takes all reasonable measures to end discrimination in employee benefits by either requesting that the union(s) involved agree to reopen the agreement(s) in order for Contractor to take whatever steps are necessary to end discrimination in employee benefits or by ending discrimination in employee benefits without reopening the collective bargaining agreement(s).
  - i. In the event Contractor cannot end discrimination in employee benefits despite taking all reasonable measures to do so, Contractor provides a cash equivalent to eligible employees for whom employee benefits are not available. Unless otherwise authorized in writing by the City Manager, Contractor understands this cash equivalent must begin at the time the union(s) refuse to allow the collective bargaining agreement(s) to be reopened or not longer than three (3) months after the date this Agreement is executed by the City.
5. Contractor understands that failure to comply with the provisions of Section 4(a) through 4(i), above, will subject Contractor to possible suspension and/or termination of this Agreement for cause; repayment of any or all of the Agreement amount disbursed by the City; debarment for future agreements until all penalties and restitution have been paid in full and/or for up to two (2) years; and/or the imposition of a penalty, payable to the City, in the sum of \$50.00 for each employee, for each calendar day during which the employee was discriminated against in violation of the provisions of the Ordinance.
  6. Contractor understands and agrees to provide notice to each current employee and, within ten (10) days of hire, to each new employee, of their rights under the Ordinance. Contractor further agrees to maintain a copy of each such letter provided, in an appropriate file for inspection by authorized representatives of the City. Contractor also agrees to prominently display a poster informing each employee of these rights.
  7. Contractor understands that Contractor has the right to request a waiver of, or exemption from, the provisions of the Ordinance by submitting a written request to the City's Procurement Services Division prior to Agreement award, which request shall identify the provision(s) of the Ordinance authorizing such waiver or exemption and the factual basis for such waiver or exemption. The City shall determine in its sole discretion whether to approve any such request.
  8. Contractor agrees to defend, indemnify and hold harmless, the City, its officers and employees, against any claims, actions, damages, costs (including reasonable attorney fees), or other liabilities of any kind arising from any violation of the Requirements or of the Ordinance by Contractor.

# Appendix A: Equal Benefits Ordinance Declaration of Compliance (Continued)

The undersigned declares under penalty of perjury under the laws of the State of California that the foregoing is true and correct, and that he or she is authorized to bind the Contractor to the provisions of this Declaration.

[Redacted Signature]

Signature of Authorized Representative

[Redacted Date]

Date

[Redacted Name]

Print Name

[Redacted Title]

Title

## Appendix B: Contract Cover/Routing Sheet

Reset Form

City of  
**SACRAMENTO**  
Office of the City Clerk

**Requires Council Approval:**  N  Y

**Council Meeting Date:** \_\_\_\_\_

Real Estate  Other Party Signature Needed  Recording Requested

### General Information

Contract Type: \_\_\_\_\_ Attachment #: \_\_\_\_\_  
 PO Type: \_\_\_\_\_ Original Doc #: \_\_\_\_\_  
 \$ Not to Exceed: \_\_\_\_\_ Certified Copies of Document: \_\_\_\_\_  
 Other Party: \_\_\_\_\_ Deed: \_\_\_\_\_  
 Project Name: \_\_\_\_\_ Tax ID # (if applicable): \_\_\_\_\_  
 Project Number: \_\_\_\_\_ Preferences:  
 Bid Transaction #: \_\_\_\_\_ LBE  SBE  DBE  MWBE

### Department Information

Department:  Division: \_\_\_\_\_  
 Project Manager: \_\_\_\_\_ Supervisor: \_\_\_\_\_  
 Contract Services: \_\_\_\_\_ Division Manager: \_\_\_\_\_  
 Phone Number: \_\_\_\_\_ Date: \_\_\_\_\_ Org Number: \_\_\_\_\_  
 Comment: \_\_\_\_\_

### Review and Signature Routing

Department	Signature or Initial	Date
Project Manager:	_____	_____
Accounting:	_____	_____
Contract Services:	_____	_____
Supervisor:	_____	_____
Division Manager:	_____	_____

City Attorney	Signature or Initial	Date
City Attorney:	_____	_____

Send Interoffice Mail  Notify for Pick Up

Authorization	Signature or Initial	Date
Department Director:	_____	_____
City Manager: Y <input type="checkbox"/> N <input type="checkbox"/>	_____	_____

**Contract Cover/Routing Form: Must Accompany ALL Contracts;**  
however, it is not part of the contract.

(Sticker)

**For City Clerk Processing**

**Finalized:**  
Initial: \_\_\_\_\_  
Date: \_\_\_\_\_

**Imaged:**  
Initial: \_\_\_\_\_  
Date: \_\_\_\_\_

**Received:**  
(City Clerk Stamp Here)

(06-07-2016)

# Appendix C: Non-Competitive Bid Justification Form

Procurement Division

## NON-COMPETITIVE BID/CONTRACT JUSTIFICATION

For use of all goods and services acquisitions.

This justification document consists of two (2) pages. All information must be provided and all questions must be answered. The "Required Approvals" section must include a date for each signature, as appropriate for the transaction.

Requesting Department Information		
Department:		Department Contact:
Division:		E-Mail:
		Telephone:      FAX:
Delivery Location:		
Required Contact Information for Source of Supply or Service		
Contractor/Supplier		Contractor Address:
Contract Amount: \$	Amendment Amount:* (if applicable) \$ (*Current amendment only)	Equipment Purchase Amount: \$
Funding Source: <input type="checkbox"/> General Fund <input type="checkbox"/> CIP <input type="checkbox"/> Grant <input type="checkbox"/> Account # _____		
Provide a brief description of the purchase request, including all goods and/or services the contractor will provide:		
Contract Type and Term		
<input type="checkbox"/> Supplies/Equipment <input type="checkbox"/> Sole-Source <input type="checkbox"/> Service/Consultant <input type="checkbox"/> Sole-Brand <input type="checkbox"/> IT Goods <input type="checkbox"/> Cooperative Agreement <input type="checkbox"/> IT Service <input type="checkbox"/> Other <input type="checkbox"/> IT Goods & Service <input type="checkbox"/> Blanket		<b>Contract Term:</b> Begin: _____ End: _____ Explain late contract submittal (services only):
<b>Current Contract Information</b> (If the requested service/supply is currently under contract, please provide the information below)		
City Contract no. #:		Resolution no. #:
Total value of current contract:		Term (time period) of contract:
Required Approvals		
<b>Certification:</b> I am aware of the Sacramento City Charter Article XIV, City Code Chapter(s) 3.56, 3.60, 3.67, and the City's policy instructions, which set forth the requirements for competitive bidding. As an authorized Department representative, I have gathered information and have made a concentrated effort to review comparable/equal services or equipment, as documented in this justification. I hereby certify the validity of the information and believe, to the best of my knowledge, that the justification conforms to the City's requirements for sole-source/sole-brand purchasing.		
<b>Division/Section</b> <input type="checkbox"/> Approved <input type="checkbox"/> Denied  _____ Division Manager/Date	<b>Department</b> <input type="checkbox"/> Approved <input type="checkbox"/> Denied  _____ Director/Date	<b>Purchasing Division</b> <input type="checkbox"/> Approved <input type="checkbox"/> Denied  _____ Procurement Manager or Designee/Date

(Rev.9-22-2010)

1

# Appendix C: Non-Competitive Bid Justification Form (Continued)

J.  
Procurement Division

Complete responses must be provided for all of the following items.

**A. THE GOOD/SERVICE REQUESTED IS RESTRICTED TO ONE SUPPLIER FOR THE REASONS STATED BELOW:**

**1. Explain why the acquisition cannot be competitively bid and why is the acquisition restricted to this good/service/supplier?**

**1.a.** Explain if this is an emergency purchase or how the supplier is the only source for the acquisition and reference the city code that applies.

**1.b.** For non-competitively bid contracts over \$5,000.00, explain why this acquisition is required and how this acquisition meets at least one of the following criteria: a) provision of essential services; b) required for public health or safety; c) emergency as defined in city ordinance. d) the acquisition is necessary to avoid financial loss to the city.

**2. Provide the background of events leading to this acquisition.**

**3. Describe the uniqueness of the acquisition (why was the good/service/supplier chosen?)**

**4. What are the consequences of not purchasing the good/service or contracting with the proposed supplier?**

**5. What market research was conducted to substantiate no competition, including evaluation of other items considered?**

(Provide a narrative of your efforts to identify other similar or appropriate goods/services, including a summary of how the department concluded that such alternatives are either inappropriate or unavailable. The names and addresses of suppliers contacted and the reasons for not considering them must be included OR an explanation of why the survey or effort to identify other goods/services was not performed.)

**B. PRICE ANALYSIS**

**1. How was the price offered determined to be fair and reasonable?**

(Explain what the basis was for comparison and include cost analyses as applicable.)

**2. Describe any cost savings realized or costs avoided by acquiring the goods/services from this supplier**

(Rev. 9-22-2010) 2



## MEMORANDUM

DATE: August 16, 2017

TO: Jorge Oseguera, City Auditor

FROM: Leyne Milstein, Director of Finance

CC: Howard Chan, City Manager

SUBJECT: **Audit of Procurement for Services of \$25,000 or Less**

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1. This letter is in response to the City Auditor's Audit of Procurement for Services of \$25,000 or Less.
2. The Department of Finance acknowledges receipt and concurs with the recommendations from the City Auditor's draft report.
3. Corrective actions are actively being taken. The Department of Finance and the City Clerk's Office initiated the Automated Bids, Contracts and Digital Signatures program (ABCDs) to proactively address many of the conditions found in this audit. The ABCDs software components to be deployed this fall, combined with updated policies, procedures, and training, will improve the City's controls over procurement and contract management.
4. I would like to take this opportunity to thank the City Auditor and staff for their efforts in identifying process improvements in this audit. Please feel free to contact me directly should you have any questions.
5. Below is the department response to the 32 audit recommendations identified in the audit report:

### **AUDIT RECOMMENDATIONS AND DEPARTMENTAL RESPONSE:**

1. **Establish a code of conduct or other codified ethics, guidelines, and standards.**  
**Response:** Finance will establish a code of procurement ethics and standards and incorporate it into the procurement policy and procurement training.
2. **Update Equal Benefits Ordinance (EBO) policies, templates, and other guidance for accuracy and consistency.**  
**Response:** Finance will update the policies and other documents for accuracy and consistency with the City Code.
3. **Develop processes to ensure EBO analysis and reports are completed as required by City policy.**  
**Response:** Finance will develop and implement processes to prepare and communicate analysis and reports on compliance with the EBO requirements.

- Determine the City's intent regarding bid protests and update policies, templates, and other guidance for consistency.**

**Response:** Finance will review the City's bid protest procedures with the City Attorney's Office and update policies and other guidance for consistency.

- Define and publish specific roles and responsibilities of procurement stakeholders.**

**Response:** Finance will work with the City Manager's Office to define the roles and responsibilities of procurement stakeholders and incorporate the definitions into policies and other guidance.

- Establish and publish contract quality control and review procedures.**

**Response:** Finance will work with the City Manager's Office to develop contract quality control and review procedures. The contract clause library to be implemented with the ABCDs program will provide the first level of quality control using consistent language vetted by the City Attorney's Office.

- Review and revise the routing cover sheet to ensure it accurately reflects value-added reviews and incorporate the routing requirements in City policy.**

**Response:** Finance and the City Clerk's Office are incorporating contract routing into the new contract authoring and signature processes. Finance will also incorporate the contract approval process into a new contract management policy.

- Develop information system controls to ensure contracts and supplements are correctly routed and reviewed before execution.**

**Response:** Finance and the City Clerk's Office are developing controls in the new contract authoring system to accomplish appropriate review of contracts before execution.

- Review and revise procurement training programs to ensure they are consistent with established City Code and City Policy.**

**Response:** Finance will update procurement training programs to conform to City Code and City policies.

- Consider requiring City employees with procurement responsibilities to complete applicable training before engaging in procurement activities.**

**Response:** In conjunction with the review of the roles and responsibilities of procurement stakeholders, Finance will develop a training program that will require procurement training for City employees with procurement responsibilities.

- Develop information system controls to ensure contracts are not developed, executed, or managed by employees who have not received applicable training.**

**Response:** Finance will implement controls to require City staff authoring, executing, and managing contracts to have appropriate training.

12. **Determine the intent and purpose of purchase orders, and clarify their requirements and use in City guidance and templates.**

**Response:** Finance will define the purpose of purchase orders and clarify their use in City policies and other guidance.

13. **Develop information system controls to ensure purchase orders and contract templates are used appropriately.**

**Response:** Finance will implement control procedures to use purchase orders and contract templates appropriately.

14. **Consider requiring the Procurement Division Manager to authorize all sole-source bidding requests, in addition to nonprofessional services.**

**Response:** Finance will evaluate requiring Procurement Division Manager, or designee, approval on all noncompetitive procurement justifications.

15. **Identify the authority delegated to approve sole-source requests during the Procurement Division Manager's absence.**

**Response:** Finance will define the responsible officials authorized to approve noncompetitive procurement justifications and incorporate the authorization into policies and procedures.

16. **Develop controls to ensure all requests for sole-sourcing are approved prior to awarding a sole-source contract.**

**Response:** Finance is developing a new process for approval of noncompetitive procurement justifications to verify that all requests for sole-sourcing are approved prior to awarding a contract.

17. **Consider a review of all currently active contracts signed by City Officers to determine the validity of those agreements and develop a plan to legitimize those agreements.**

**Response:** Finance will coordinate a discussion between the City Manager's Office, City Clerk's Office, and City Attorney's Office regarding the validity of all currently active contracts.

18. **Develop controls to ensure all contract signatories are authorized to sign contracts and supplements on behalf of the City.**

**Response:** Finance will coordinate with the City Manager's Office to develop controls to verify all contract signatories are authorized to sign contracts and contract amendments.

19. **Consider conducting a review of active City contractors' tax certificate status to recover overdue taxes and penalties.**

**Response:** Finance is implementing new controls with the ABCDs program to confirm active City suppliers obtain and maintain active business operations tax certificates.

**20. Develop controls to ensure contracts cannot be executed without a valid Business Operation Tax Certificate.**

**Response:** Finance is implementing new controls with the ABCDs program to preclude City contracts from being executed with suppliers without a valid business operations tax certificate.

**21. Develop controls to monitor Business Operation Tax Certificates for expiration throughout the contract period.**

**Response:** Finance is implementing new controls with the ABCDs program to confirm active City suppliers obtain and maintain active business operations tax certificates.

**22. Develop information system controls to ensure contract supplements are only executed if they are authorized in the contract and are only executed before the contract or supplement expires.**

**Response:** Finance is developing controls to limit contract amendments to original contracts that authorized amendments. Contract amendments will only be allowed before the contract or amendment expires.

**23. Review the bidding and approval thresholds to determine if they meet the City's procurement intent, and adjust thresholds if necessary.**

**Response:** Finance will perform a review of the procurement and contract approval thresholds immediately following the ABCDs program implementation.

**24. Develop information system controls to ensure bids and contracts are initially written to the appropriate thresholds.**

**Response:** Finance is developing controls to bring greater transparency to City procurement and contracting activities with the ABCDs program. System controls will be augmented by updated policies, procedures, and training to ensure bids and contracts are based on appropriate thresholds.

**25. Develop information system controls to ensure contracts are not supplemented beyond the established thresholds without the appropriate bidding and approval.**

**Response:** Finance is developing controls to bring greater transparency to City procurement and contracting activities with the ABCDs program. System controls will be augmented by updated policies, procedures, and training to ensure contracts are not supplemented beyond the established thresholds without appropriate bidding and approval.

**26. Establish clear standards regarding periods of performance and develop information system controls to ensure bids and contracts include specific periods of performance.**

**Response:** Finance will work with the City Attorney's Office to develop clear standards for periods of performance and to incorporate specific periods of performance into bids and contracts.

**27. Revise contract forms to include a signature date.**

**Response:** The eSign Live digital signature tool, being deployed as part of the ABCDs program, will apply a date and time to all signatures.

28. **Develop controls to ensure contracts are fully executed prior to any service performance.**

**Response:** Finance will publish a contract management policy and train City staff to issue a notice to proceed after a contract is fully executed and prior to any service performance.

29. **Develop information system controls to ensure purchase orders are only authorized with a valid contract in place.**

**Response:** Finance will develop policies and procedures and deliver training to prevent purchase orders from being authorized without a valid contract in place.

30. **Develop information system controls to ensure invoices are not paid without a contract in place.**

**Response:** Finance will develop policies and procedures and deliver training to prevent invoices from being paid without a contract in place.

31. **Develop information system controls to ensure purchase orders stay within a contract's not-to-exceed limit.**

**Response:** Finance will implement system controls to limit purchase orders to a contract's not-to-exceed amount.

32. **Develop information system controls to ensure employees do not authorize payments that exceed a contract's not-to-exceed limit.**

**Response:** Finance will implement system controls to limit payments to a contract's not-to-exceed amount.

## Department of Finance Timeline for Audit Recommendations for Services of \$25K or Less

ID	Description	Addressed by ABCDs?	Projected Timeline of Implementation and/or Completion <sup>1</sup>	Status
1	Establish a code of conduct or other ethics, guidelines, and standards.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
2	Update Equal Benefits Ordinance (EBO) policies, templates, and other guidance for accuracy and consistency.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
3	Develop processes to ensure EBO analysis and reports are completed as required by City Policy.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
4	Determine the City's Intent regarding bid protests and update policies, templates, and other guidance for consistency.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
5	Define and publish specific roles and responsibilities of procurement stakeholders.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
6	Establish and publish contract quality control and review procedures.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
7	Review and revise the routing cover sheet to ensure it accurately reflects value-added reviews and incorporate the routing requirements in City Policy.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
8	Develop information system controls to ensure contracts and supplements are correctly routed and reviewed before execution.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
9	Review and revise procurement training programs to ensure they are consistent with established City Code and City Policy.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
10	Consider requiring employees with procurement responsibilities to complete training before engaging in procurement activities.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
11	Develop information system controls to ensure contracts are not developed, executed, or managed by employees who have not received applicable training.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
12	Determine the intent and purpose of purchase orders, and clarify their requirements and use in City guidance and templates.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)

ID	Description	Addressed by ABCDs?	Projected Timeline of Implementation and/or Completion <sup>1</sup>	Status
13	Develop information system controls to ensure purchase orders and contract templates are used appropriately.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
14	Consider requiring the Procurement Division Manager to authorize all sole-source bidding requests, in addition to nonprofessional services.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
15	Identify the authority delegated to approve sole-source requests during the Procurement Division Manager's absence.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
16	Develop controls to ensure all requests for sole-sourcing are approved prior to awarding a sole-source contract.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
17	Conduct and document a review of all currently active contracts signed by City officers to determine the validity of those agreements and develop a plan to legitimize those agreements.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
18	Develop controls to ensure all contract signatories are authorized to sign contracts and supplements on behalf of the City.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
19	Consider conducting a review of active City contractors' tax certificate status to recover overdue taxes and penalties.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
20	Develop controls to ensure contracts cannot be executed without a valid Business Operation Tax Certificate.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
21	Develop controls to monitor Business Operation Tax Certificates for expiration throughout the contract period.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
22	Develop information system controls to ensure contract supplements are only executed if they are authorized in the contract and are only executed before the contract or supplement expires.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
23	Review the bidding and approval thresholds to determine if they meet the City's procurement intent, and adjust thresholds if necessary.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.

ID	Description	Addressed by ABCDs?	Projected Timeline of Implementation and/or Completion <sup>1</sup>	Status
24	Develop information system controls to ensure bids and contracts are initially written to the appropriate thresholds.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
25	Develop information system controls to ensure contracts are not supplemented beyond the established thresholds without the appropriate bidding and approval.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
26	Establish clear standards regarding periods of performance and develop information system controls to ensure bids and contracts include specific periods of performance.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
27	Revise contract forms to include a signature date.	✓	Fall 2017	ABCDs Project- new modules being added to existing system. Implementation Design
28	Develop information system controls to ensure contracts are fully executed prior to any service performance.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
29	Develop information system controls to ensure purchase orders are only authorized with a valid contract in place.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
30	Develop internal controls to ensure invoices are not paid without a contract in place.		Spring 2018 (ongoing)	Will be addressed post Go-Live of ABCDs implementation.
31	Develop information system controls to ensure purchases stay within a contract's not-to-exceed limit.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)
32	Develop information system controls to ensure employees do not authorize payments that exceed a contract's not-to-exceed limit.	✓	Fall 2017 (ongoing)	ABCDs Project- new modules being added to existing system. Implementation Design completed; testing (in process)

<sup>1</sup> Once processes, policies, system queries and reports have been developed the Procurement Division will monitor departments for compliance on an ongoing basis.