

PERFORMANCE AUDIT

FOLLOW-UP Professional Services Agreements

September 1, 2016

Office of the City Manager
Internal Audit Division
Cheryl Johannes, Internal Audit Manager

SUMMARY

In keeping with generally accepted government auditing standards, Internal Audit is responsible to monitor and follow-up on audit recommendations to ensure audit findings are being addressed through appropriate corrective action and to aid in planning future audits.

This report is to inform the City Council through the Finance Committee that Internal Audit has completed a follow-up review of the Professional Services Agreement audit issued June 22, 2015.

Our review of Professional Service Agreements (also referred to as the Professional Consultant Services Agreement or PSAs) and related procurement and expenditure transactions¹ for the period of July 1, 2015 through June 30, 2016 determined that departments are generally following administrative procurement policies and procedures. Internal controls for PSAs that are less than \$50,000 could be strengthened with some additional processes/procedures.

It should be noted that on August 10, 2016 the Finance Department presented to the Finance Committee an overview of a new Purchasing Task Force to address the entire purchasing process and related administrative policies.

OBJECTIVE, SCOPE and METHODOLOGY

The objective of the follow-up audit is to provide reasonable assurance that Departments are following administrative procedures² when requesting procurement of Professional Services.³

By following administrative procedures for the procurement of professional services, the City and departments will avoid any appearance of favoritism, appropriate funds will be encumbered, a purchase order will be assigned to the PSA/contract, and payment of invoices will not exceed the financial terms of the PSA/contract.

To meet our objectives, we queried and extracted information from the financial system (IFAS), the purchasing system (Oracle/Utilities Work and Asset Management), and the City Clerk's online document repository. We also followed-up with Departments when specific documentation was not found in the various systems.

BACKGROUND

Municipal Code [Chapter 3.16](#) assigns the Purchasing Manager the "powers and duties" for the procurement of all of supplies, materials, equipment and contractual services needed by any and all departments, boards, etc. supported by City funds, except for the Riverside Public Utilities Department (MC Section 3.16.040). Departments are responsible for following City purchasing and contracting polices/procedures as outlined in Chapter 7 of the [Administrative Manual](#) when requesting bids/quotes, evaluating, selecting and awarding contracts with professional service providers.

¹ Financial transactions for "professional services" are recorded in GL Object 421000 in the City's financial system.

² Admin Policy [02.005.00](#) – *Contracting for Professional Services When Fees are \$50,000 or Less*.

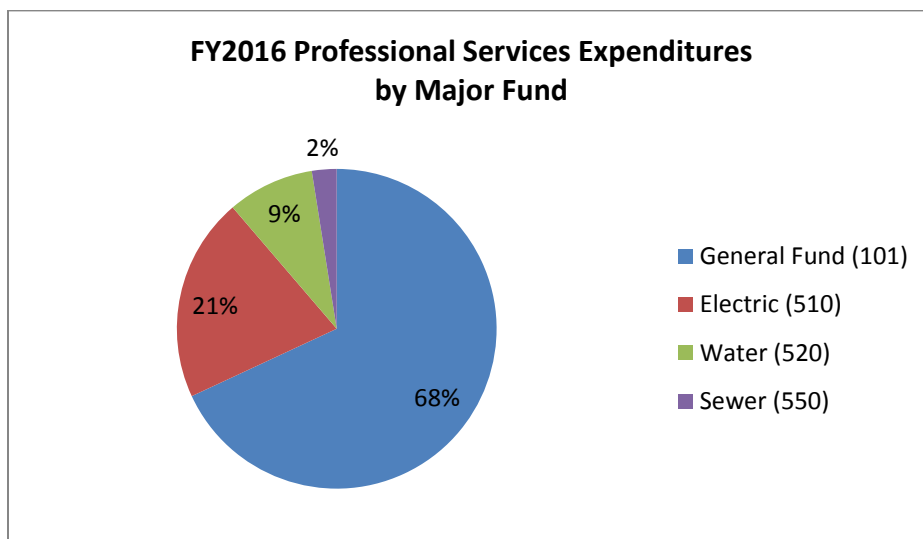
³ Professional Services is defined as architectural, engineering, planning, financial and other consulting services, which involves specialized knowledge and/or subject matter expertise.

As with all agreements or contracts, PSAs are to be:

- Reviewed and approved to form by the City Attorney's Office (CAO), even if the agreement does not require City Council approval ([Section 702 \(d\)](#) of the City Charter);
- Signed by the City Clerk ([Section 419 - Execution](#) of a contract); and
- Filed with the City Clerk ([Section 703](#) of the City Charter); uploaded on City's document management portal.

In addition, each department is responsible for ensuring that the vendor/consultant complies with terms of the agreement (i.e. scope of work, compensation, deliverables, etc.), reviewing invoices for accuracy, and ensuring payments do not exceed the total amount of the PSA.

For the fiscal year ending June 30, 2016, \$22.2 million was expensed as professional services.⁴



General Fund (101)	\$13.9 million
Electric (510)	\$4.2 million
Water (520)	\$1.8 million
Sewer (550)	\$0.5 million

FINDINGS and RECOMMENDATIONS

As outlined in the current [Administrative Policy 02.005.00](#) – *Contracting for Professional Services \$50,000 or Less* - when a department identifies a need for a professional service/consultant, the department prepares a Request for Proposal (RFP) or solicits informal bids.

⁴ The current Oracle/Utilities Work and Asset Management (UWAM) system used by Purchasing does not provide contract management capabilities; we were unable to identify the number of active Professional Service Agreements.

In some cases a department may have an immediate need for a consultant with expertise in a unique field of service or industry. In this instance, the City Manager may authorize the department to contract with only one qualified consultant. A written recommendation is to be prepared by the department and forwarded to the City Manager for approval (refer to Appendix A).

In our sample testing of PSAs less than \$50,000 we found several examples where there was no single source form prepared/approved and on file with Purchasing.

Finding

The current Administrative Policy (02.005.00) does not require or instruct the originating department to forward the single source approval form to Purchasing as an attachment to the purchasing requisition in UWAM as confirmation of an approved single/sole vendor.

Recommendation

To strengthen internal controls we recommend the Purchasing Task Force consider the following when reviewing *Contracting for Professional Services \$50,000 or Less*:

- 1) The approval form for a single source/consultant must be completed, approved and attached to the purchase requisition in the purchasing system before the requisition is routed for approval.

Internal Audit will periodically monitor all PSAs during the fiscal year to ensure departments continue to comply with current City purchasing policies and procedures; we will communicate directly with departments if/when non-compliance is evident. We look forward to the final Finance/Purchasing Task Force recommendations.

- Cheryl Johannes, Internal Audit Manager

APPENDIX A

Form per Admin Policy 02.005.00

Contracting for Professional Services \$50,000 or Less



Department Name

City of Arts & Innovation

Date:

To: John A. Russo
City Manager

From: Name, Title

Subject: **CONTRACTING FOR PROFESSIONAL SERVICES (LESS THAN \$50,000)**

Under the provisions of the Administrative Manual, 02.005.00 *Contracting for Professional Services when fees are \$50,000 or less*, the department is requesting to contact a single qualified consultant for:

Project:

Consultant:

Justification:

- ☐ a. In cases of ☐ emergency or ☐ immediate need for services;
- ☐ b. The services required are so special and unique as to be provided by only one qualified consultant as documented by a single source memorandum (attached); or
- ☐ c. It is determined to be in the best interests of the City.

Department Head Name
Title

Signature

Approved:

John A. Russo
City Manager

Date

Include this approval with the contract

3900 Main Street, Riverside, CA 92522 Phone: (951) 826-5555 Fax: (951) 8

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