

# 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 transactions<sup>1</sup> 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 procedures<sup>2</sup> when requesting procurement of Professional Services.<sup>3</sup>

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 policies/procedures as outlined in Chapter 7 of the [Administrative Manual](#) when requesting bids/quotes, evaluating, selecting and awarding contracts with professional service providers.

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

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

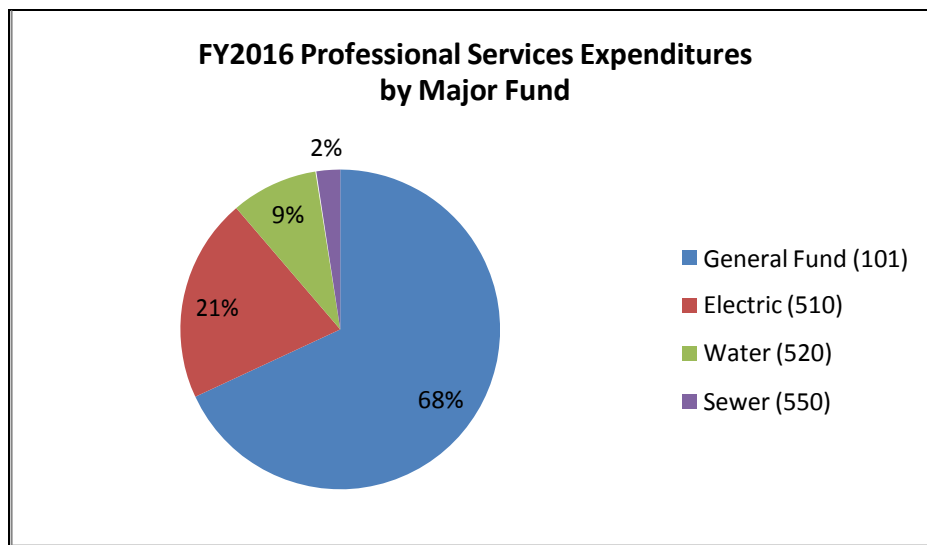
<sup>3</sup> Professional Services is defined as architectural, engineering, planning, financial and other consulting services, which involves specialized knowledge and/or subject matter expertise.

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.<sup>4</sup>



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

## FINDING and RECOMMENDATION

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.

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<sup>4</sup> 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.

## **MANAGEMENT'S RESPONSE**

On November 9, 2016 the Finance Department presented to the Finance Committee a report and proposed changes to the Professional Services procurement process in response to the audit finding and recommendation. Refer to attached ADDENDUMS.

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Internal Audit will periodically monitor all PSAs 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:**

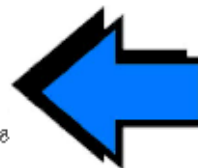
\_\_\_\_\_  
John A. Russo  
City Manager

\_\_\_\_\_  
Date

Include this approval with the contract

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

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*City of Arts & Innovation*

# Finance Committee Memorandum

**TO: FINANCE COMMITTEE** **DATE: NOVEMBER 9, 2016**

**FROM: FINANCE DEPARTMENT** **WARDS: ALL**

**SUBJECT: PROFESSIONAL SERVICES AGREEMENT FOLLOW-UP AUDIT REPORT –  
FINANCE DEPARTMENT PROPOSED POLICY CHANGES**

## **ISSUES:**

Recommend to the City Council approval of the Professional Services Agreement Follow-up Audit Report, which incorporates proposed Administrative Manual Policy Updates from the Finance Department.

## **RECOMMENDATIONS:**

That the Finance Committee recommend to the City Council approval of the Professional Services Agreement Follow-Up Audit Report from October 12, 2016, which incorporates proposed Administrative Manual Policy Updates from the Finance Department.

## **BACKGROUND:**

On June 22, 2015, the Internal Audit Division issued a performance audit report on Professional Services Agreements. The report included two recommendations to strengthen internal controls, minimize financial risk and provide improved professional service contract management. Both recommendations centered on the need to follow existing policies.

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, including services, and related administrative policies.

On October 12, 2016, the Internal Audit Division presented a Professional Services Agreement Follow-up Audit Report. The report included one recommendation related to non-policy conformance with single-sourced agreements. The Committee recommended that the Finance Department return in November 2016 to provide an update on how this issue will be addressed.

## **DISCUSSION:**

The October 12, 2016, Internal Audit Division follow-up audit on professional services included the following recommendation:

*To strengthen internal controls and ensure departments comply with the City Administrative Policy 02.005.00, we recommend the following procedure be considered by the Purchasing Task Force 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.*

As part of the Purchasing Task Force, the Finance Department and all City Departments are reviewing all policies related to the procurement of services, including professional services under \$50,000. The goal is to provide a single Administrative Manual policy for procurement of all services, which strengthens internal controls, requires departments to provide adequate documentation (e.g. bids, sole source, etc.), increases awareness of bids and request for proposals (RFPs) to the public, and expedites the procurement process.

Attachment 1 provides a general overview of all service procurements and proposed changes to that process. The most important change in the process is requiring City departments to issue a purchase requisition as the first step in the process. This will allow the Purchasing and Risk Management divisions of the Finance Department to verify funding, inquire if the funds used have any special requirements (e.g. Federal grants), agree on insurance provisions and work with City departments on the best path to move forward (e.g. sole source).

Other proposed changes to existing processes included utilizing a services purchase order for items under \$25,000 and requiring all RFPs over \$25,000 to be posted on the City's Purchasing website. As the terms and conditions of the City's purchase orders are reviewed by the City Attorney's Office and require standard insurance requirements and a business license, staff can utilize this approach to save the time necessary for drafting agreements. Additionally, posting additional items on the City's bidding website will help standardize requirements, reach a larger audience, and possibly provide for better pricing.

The Finance Department is also in the process of implementing a contract module to the City's financial system. This will greatly help staff in all departments track service agreements, including payments made to date and confirmation of insurance/business licenses.

The Purchasing Task Force is scheduled to provide its recommendations to the Finance Committee in early 2017. Any changes to the proposed changes noted in this report will be brought forward at that time.

## **FISCAL IMPACT:**

There is no fiscal impact associated with this report.

Prepared by:

Adam Raymond, Assistant Chief Financial Officer

Approved by:

Marianna Marysheva, Assistant City Manager

Certified as to

Availability of funds:

Scott Miller, PhD, Chief Financial Officer/City Treasurer

Approved as to form:

Gary G. Geuss, City Attorney

Attachment:

Professional Services Process – Proposed Changes



**CURRENT PROFESSIONAL SERVICES PROCESS****PHASE 1: NEED IDENTIFIED**

City Department Identifies Need:

- Requests City Manager approval for a sole source, if needed
- Prepares a Request for Proposal (RFP), if not utilizing sole source

**PHASE 2: PROVIDER SELECTED**

City Department selects service provider:

- Grades RFP or utilizes sole source approval
- Works with City Attorney's Office to draft an agreement
- Works with City Clerk's Office on Conflict of Interest Forms
- Works with Finance Department/Risk Management to certify insurance requirements

**PHASE 3: APPROVALS**

- City Attorney's Office signs agreement as, "Approved to Form"
- Finance Department Signs agreement as, "Availability of Fund"
- Department Head (\$25,000 and under), City Manager (Up to \$50,000), and City Council/RPU Board (Over \$50,000)

**PHASE 4: REVIEW AND TRACKING**

- City Clerk's Office reviews/validates insurance on file, ensures business license is up to date, and all prior approvals are valid
- City Clerk's Office signs agreement as to, "Attest"
- City Department issues a requisition with all documentation (agreement, sole source, bids, etc.)
- Finance Department reviews requisition and issues a purchase order (PO)

**PROPOSED CHANGES****PHASE 1**

- Require issuance of requisition prior to issuance of RFP and/or receipt of sole source
- Verify Insurance requirements or changes from City standards

**PHASE 2**

- Require all RFPs over \$25,000 to be posted to the City's Online Bidding website
- Establish a general rule that all services under \$25,000 should utilize a Services PO, which would expedite the process.

**PHASE 3**

- No changes, except for services procured under \$25,000

**PHASE 4**

- City Department updates requisition with updated bid documents, sole source
- Finance Department approves PO and issues agreement a contract number (*Finance Department is currently in the process of implementing a contact management module for the existing financial system*)