



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: DECEMBER 13, 2016**
FROM: INTERNAL AUDIT DIVISION **WARDS: ALL**
SUBJECT: PROFESSIONAL SERVICES AGREEMENT FOLLOW-UP AUDIT REPORT

ISSUE:

Receive, review and provide input on the Professional Services Agreement Follow-up Audit Report.

RECOMMENDATION:

That the City Council receive, review and provide input on the Professional Services Agreement Follow-up Audit Report.

COMMITTEE RECOMMENDATION:

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

On November 9, 2016, the Finance Department presented to the Finance Committee proposed policy changes to address the Internal Audit recommendation. The Finance Committee with Chair Mike Soubirous, Vice Chair John Burnard and Member Jim Perry unanimously recommended to City Council the Professional Services Agreement Follow-up Audit Report with the Finance Department management response and proposed process changes as addendums.

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:

- 1) Departments should be required to follow Administrative Policy 02.005.00 (Contracting for Professional Services Less Than \$50,000). This will ensure executed PSAs are recorded in the purchasing system, assigned a purchase order, financial terms are encumbered, and invoices will not be processed for payment if they exceed the financial terms of the PSA.

- 2) Use of the Request for Payment form should be limited to certain types of expenses.

The Finance Department was responsible for implementing procurement process changes, revising the policy regarding use of Requests for Payments, communicating and providing training to the departments, monitoring and enforcing the related policies.

DISCUSSION:

Our follow-up review of Professional Service Agreements (also referred to as the Professional Consultant Services Agreement or PSAs) and related procurement and expenditure transactions for the period of July 1, 2015 through June 30, 2016 determined that departments are generally following PSA administrative policies and procedures. We noted that the use of purchase orders for PSAs has increased significantly due to the communication and training efforts of Finance/Purchasing.

Finding

As outlined in 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.

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 prepared by the department and forwarded to the City Manager for approval.

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

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

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*:

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.

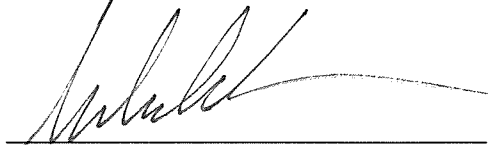
It should be noted that on August 10, 2016 the Finance Department presented to the Finance Committee an overview of a new Purchasing Task Force to address the entire purchasing process and related administrative policies. We look forward to the final Finance/Purchasing Task Force recommendations.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared by: Cheryl Johannes, Internal Audit Manager
Approved by: Marianna Marysheva, Assistant City Manager
Certified as to
availability of funds: Scott G. Miller, PhD, Chief Financial Officer/City Treasurer
Approved as to form: Gary G. Geuss, City Attorney

Concurs with:

A handwritten signature in black ink, appearing to read 'Mike Soubrious', is written over a horizontal line.

Mike Soubrious, Chair
Finance Committee

Attachments:

1. Professional Services Agreement Follow-up Audit Report with Addendum
2. Presentation October 12, 2016 by the Internal Audit Division
3. Presentation November 9, 2016 by the Finance Department