



RICHMOND OFFICE of the CITY AUDITOR

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Report Number: 2015-09

AUDIT OF Department of Public Works **CONTRACT ADMINISTRATION AND COMPLIANCE**

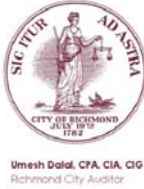
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OFFICIAL GOVERNMENT REPORT

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Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the City Auditor

Executive Summary

June 9, 2015

The Honorable Members of the Richmond City Council
The Honorable Mayor Dwight C. Jones

Subject: Department of Public Works – Contract Administration and Compliance Audit Report

The City Auditor's Office has completed an audit of the contract administration function within the Department of Public Works (DPW). In November 2013, DPW hired a Contract Administrator for a newly created function in an effort to better manage its contracts. The function is staffed with a Contract Administrator who oversees and assists the Department with the administration of its goods and services contracts. Capital improvement contracts are excluded from the scope of the contract administration function. Overall, DPW has over 150 contracts. To manage this volume of contracts effectively, DPW has assigned Project Managers as needed. The Contract Administrator is expected to coordinate efforts with these Project Managers for comprehensive and effective contract administration.

The following are the salient findings of the audit:

- The effectiveness of contract administration efforts needs improvement. The Contract Administrator did not have a complete independent listing of the DPW contracts. Without a complete independent list, the Contract Administrator may not be able to monitor all contracts within the scope of the contract administration function.
- At the time of the audit, standard processes were not in place for effective administration of contracts. The final policies and procedures were approved subsequent to the audit period.
- The Project Managers for the cleaning services and temporary staffing services contracts did not always evaluate the deliverables of the contracts. The Contract Administrator did

not have knowledge of this situation. This represents a breakdown in the process and compromises the effectiveness of the contract administration function.

- The Project Manager over the cleaning services contract did not have complete time records for the vendor's employees and did not reconcile supporting documentation to the vendor invoices.
- Auditors found that the average number of employees and man-hours at City Hall were less than the contract required. Although the contracted staffing level was maintained at the Southside Social Services site, the average number of man-hours was less than the number required in the contract. The City may have incurred an annualized loss of \$47,740 due to these discrepancies.
- The auditor found that the contract administrator had not communicated contract administration protocols, including procurement procedures to the Project Manager over the cleaning services contract. The auditors observed several modifications to the cleaning services contract without using change orders, which resulted in an additional annualized expenditure of \$152,666 which was not authorized.
- In addition, DPW paid the temporary staffing vendor a higher rate prior to executing change orders and getting approval for the change. For the staffing services contract, the auditors observed that proper evidence to substantiate vendor billing was not retained. In this situation, vendor overcharges may not be identified and challenged.

The City Auditor's Office appreciates DPW employees' cooperation and receptiveness during this audit. This report includes eight recommendations, and DPW has concurred with all. Written responses to this report are included at the end of the report. Should you have a question about the contents of this report, please call the City Auditor's Office.

Sincerely,

Umesh Dalal

Umesh Dalal, CPA, CIA, CIG
City Auditor

cc: Selena Cuffee-Glenn, Chief Administrative Officer
The Richmond City Audit Committee
Christopher Beschler, DCAO - Operations
Dr. Emmanuel Adediran, Interim Director

COMPREHENSIVE LIST OF RECOMMENDATIONS

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3	DPW Director needs to formally require that the DPW Deputy Director of Finance provide a periodic summary report on contract administration function activities to the DPW Director.	11
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5	DPW Director needs to require a structured contract administration process that requires the Contract Administrator to address all contract administration function issues, such as maintaining an accurate and complete inventory of contracts, renewals, change orders, etc. in a timely manner.	11
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COMPREHENSIVE LIST OF RECOMMENDATIONS

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Overview

Introduction

The City Auditor's Office has completed an audit of the contract administration function within the Department of Public Works (DPW). This audit covers the 12-month period ended June 30, 2014. The objective of this audit was to evaluate internal controls as defined by the Committee of Sponsoring Organizations (COSO).

The auditors conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

Methodology

To complete this audit, the auditors performed the following procedures:

- Interviewed relevant DPW employees;
- Reviewed the vendors' deliverables for the contracts selected;
- Reviewed paid invoices and tested for compliance with the terms and conditions of the contracts;
- Surveyed City staff to gauge customer satisfaction with the services provided by the cleaning services vendor; and
- Conducted other tests, as deemed necessary.

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***Management
Responsibility***

The management of the City of Richmond is responsible for ensuring that resources are managed properly and used in compliance with laws and regulations; City programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Background***Contract Administration Function***

According to the Contract Administration Manual issued by the Department of Procurement Services (DPS), “Contract Administration is the management of all actions after the award of the contract that must be taken to assure contract compliance. For example: timely delivery, acceptance, payment, closing contract, etc.” According to a recent clarification in the DPS newsletter, “Contract Administration includes all actions taken by the City relative to a specific contract after the award is made. The contract administration process assures that the contractor’s and agency’s total performance is in accordance with the terms and conditions of the contractual agreement.” In November 2013, DPW hired a Contract Administrator for a newly created function in an effort to better manage its contracts. The function is staffed with a Contract Administrator who oversees and assists the Department with the administration of its goods and services contracts. Capital improvement contracts are excluded from the scope of the contract administration function.

***Contract
administration
involves actions
taken to assure
contract compliance***

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DPW provides many City services through its various divisions. Each division may have multiple contracts. Overall, DPW has over 150 contracts. To manage this volume of contracts effectively, DPW has assigned Project Managers as needed. The Contract Administrator is expected to coordinate efforts with these Project Managers for comprehensive and effective contract administration.

The following is the description of the contracts selected for this audit:

Contract Type	Description	Contract Value
Lawn Care Services	Lawn Care Services for Chippenham Parkway	\$ 65,000.00
Fueling	Citywide Vehicle Fueling Services	\$ 5,289,977.00
Cleaning Services	Cleaning services for specified City locations	\$ 1,399,334.00
Two temporary Employment Services	Various temporary employment positions throughout department	\$ 5,937,500.00
Total Contracts Sampled		\$ 12,691,811.00

Observations and Recommendations

What worked well?

Auditors noted several procedures that worked well. For example:

Lawn care services contract

- all invoices properly detailed the services provided;
- all payments were executed in accordance with the terms and conditions of the contract; and

Fueling contract

- billing statements were properly detailed;
- payments were executed according to the terms and conditions of the contract; and

Cleaning services contract

- overall, in a survey conducted by the auditors, City employees expressed satisfaction with the cleaning services; and
- the contractor complied with the requirement for employee background checks.

Improvement Opportunities

Internal Controls need improvement

According to Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It

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Internal control structure over contract administration needs improvement

also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations
- Accurate financial reporting
- Compliance with laws and regulations

Based upon audit test work, it was determined that the DPW contract administration function does not have an adequate internal control structure to ensure goods and services are delivered and payments are issued according to the terms and conditions of the contract. These issues are discussed throughout this report.

The Contract Administrator did not have a complete independent listing of the DPW contracts

The effectiveness of contract administration efforts needs improvement

The auditors selected five contracts with a total face value of more than 12 million dollars. At the inception of the audit, the Contract Administrator did not have a complete independent listing of the DPW contracts. Without a complete independent list, the Contract Administrator may not be able to monitor all contracts within the scope of the contract administration function. The issues identified in this audit related to this function are discussed as follows.

Standard processes were not in place for effective administration of contracts

Control activities and monitoring processes need to be enhanced for assurance of proper controls

At the time of the audit, standard processes were not in place for effective administration of contracts. Established policies and procedures relating to the contract administration role were not formally in place during the

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audit period. The final policies and procedures were approved subsequent to the audit period. Although the contract administration function had been in place for only six months at the beginning of this audit, the processes should have been in place at the inception of this function. Without established processes, the Contract Administrator and Project Managers may not have appropriate guidance to carry out their assigned duties.

The cleaning services contract deliverables were not evaluated consistently

The Project Managers for the cleaning services and temporary staffing services contracts did not always evaluate the deliverables of the contract. The Contract Administrator did not have knowledge of this situation. This represents a breakdown in the process and compromises the effectiveness of the contract administration function. For example:

- The cleaning services contract specifically outlines periodic tasks to be completed by the contractor. In addition, there are several other tasks that are expected to be accomplished. The Project Manager did not provide documentation demonstrating his contract monitoring to ensure the accomplishment of the required tasks. Without proper monitoring, the contractor may be compensated for tasks that are not performed.

Subsequent to the scope of the audit, the Contract Administrator and DPW management met with the cleaning services vendor to address issues/concerns with the deliverables of the contract. The vendor provided a corrective action plan to address those items.

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- According to the Project Manager over the cleaning services contract, complaints were evaluated and remediated based on severity. However, these complaints and the resolutions were not tracked by the Project Manager. Therefore, in the event complaints are not addressed, the City may not receive the contracted level of service.

The auditors did not find that the vendor performance on this contract was evaluated. Contract administration should have captured the adequacy of the vendor performance for the cleaning services contract on an ongoing basis. Having this information would be useful in contract administration. An independent survey conducted by auditors of the users of these services did not indicate major vendor performance issues.

The temporary staffing vendor did not perform drug or background check screenings as required by the contract

- The staffing services vendor did not provide evidence of background checks required by the contract. The auditors did not observe any substantial effort made by the Project Manager or the Contract Administrator to make the vendor comply with this requirement. Upon inquiry, the vendor indicated that they rely on employee disclosure related to the absence of drug use and felony criminal history by the applicant. No other procedure is conducted to verify the validity of this disclosure. The temporary employees work in various DPW divisions and have access to the City property. They may be required to operate heavy machinery and interact with other City employees. Therefore, a disclosure about drug use and felony

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convictions without an independent verification should not be acceptable as this situation can lead to accidents and safety concerns for City employees.

The Project Managers did not review and reconcile vendor invoices relating to the cleaning and staffing services contracts

The Project Managers did not review and reconcile vendor invoices relating to the cleaning and staffing services contracts. The Project Manager over the cleaning services crew did not have complete time records for the vendor's employees and did not reconcile supporting documentation to the vendor invoices.

Contract modifications required during the term of the contract must be completed with change order forms or upon contract renewal. The Chief Administrative Officer must approve all modifications requiring additional expenditures exceeding \$100,000. The auditor found that the Contract Administrator had not communicated contract administration protocols, including procurement procedures to the Project Manager over the cleaning services contract. The auditors observed several modifications to the cleaning services contract without using change orders. For example:

- The cleaning services contract required a staffing level of 20 employees for City Hall and seven for Southside Social Services. Auditors found that the average number of employees and man hours at City Hall were less than the contract required. Although the contracted staffing level was maintained at the Southside Social Services site, the average number of man hours was less than the number required in the contract. During the exit meeting, DPW staff indicated that sometimes the hours not used at designated locations

The City potentially paid for time not worked

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are used elsewhere at other city facilities. They also indicated that the use of hours elsewhere is not documented. Without documentation, it is not possible to verify if the City received adequate value for the amount paid. The table below depicts an estimated annual loss due to unaccounted hours for the facilities reviewed:

<i>Staffing level required</i>	<i>Total Annual Loss</i>
City Hall	\$41,688
Southside Social Services	\$ 6,052
Total Loss	\$47,740

Source: PBA

***The City paid for
special cleaning
projects outside of
the contract***

- The cleaning services contract required seven day/night porters at a cost of \$161,520 annually. In a review of invoices for four months, the auditors found that the City consistently paid for the services of 11 to 18 day/night porters. This resulted in an additional annualized expenditure of \$152,666 which was not authorized. This additional payment should have been authorized using proper change order procedures.
- In addition, auditors compared the recalculated hours with the billed hours on the invoices and noted an exception on one of the four invoices tested. In this case, the vendor overbilled the City 118 day-porter hours, which resulted in overbilling of about \$1,700 for the month.

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***Evidence to
substantiate
staffing services
contract billing was
not retained***

- DPW paid the temporary staffing vendor a higher rate prior to executing change orders and getting approval for the change.
- For the staffing services contract, the auditors observed that proper evidence to substantiate vendor billing was not retained. In this situation, vendor overcharges may not be identified and challenged. This could result in losses to the City. The auditors observed incomplete information, some overpayments for time not worked, and errors in rates charged. Examples of specific observations included paying temporary employees for their lunch breaks and incomplete sign in and out logs that resulted in charges to the City for a full day of work.
- For the staffing services contract, the City employees supervising the temporary employees were required to approve their time cards. Auditors observed that DPW did not have a consistent practice for approval of time cards. As a result, some time cards were not approved and other time cards had a pre-printed, typed name of the approver. This could result in payment for time not worked.

Auditors also noted that one of the vendor's employees working for DPW performs conflicting administrative duties of compiling, reconciling, and submitting information about his other fellow employees' timecards to his employer for billing purposes.

Recommendations:

1. *DPW Director needs to require a structured contract administration process that ensures communication of management's expectations from the Deputy Director of DPW Finance, the Contract Administrator, and the respective Project Managers.*
2. *DPW Director needs to require a structured contract administration process that formalizes current practice for proper reporting of contract related activities from the Project Managers to the Contract Administrator and from the Contract Administrator to the DPW Deputy Director of Finance.*
3. *DPW Director needs to formally require that the DPW Deputy Director of Finance provide a periodic summary report on contract administration function activities to the DPW Director.*
4. *DPW Director needs to require a structured contract administration process that requires the Contract Administrator to monitor vendor performance through working with Project Managers and timely addressing vendor performance issues.*
5. *DPW Director needs to require a structured contract administration process that requires the Contract Administrator to address all contract administration function*

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issues, such as maintaining an accurate and complete inventory of contracts, renewals, change orders, etc. in a timely manner.

- 6. DPW Director needs to require a structured contract administration process that establishes performance measures for the Contract Administrator and Project Managers.*
- 7. DPW Director needs to require Project Managers to:*
 - a. Obtain and retain all vendor documentation to support vendor charges*
 - b. Reconcile supporting documentation to invoice charges based on contract pricing.*
- 8. DPW Director needs to require the Project Managers to verify and document proper compliance with terms, conditions, and deliverables of respective contracts.*

MANAGEMENT RESPONSE FORM

2015-09 DPW Contract Administration and Compliance

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
1	1. DPW Director needs to require a structured contract administration process that ensures communication of management's expectations from the Deputy Director of DPW Finance, the Contract Administrator, and the respective Project Managers.	Y	Public Works will continue to adhere to the established SOPs for its contract administration function for proper communication. Meetings will continue with Divisions and Leadership regarding contractual matters as they arise.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Ongoing
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
2	DPW Director needs to require a structured contract administration process that formalizes current practice for proper reporting of contract related activities from the Project Managers to the Contract Administrator and from the Contract Administrator to the DPW Deputy Director of Finance.	Y	Public Works will continue to adhere to the established SOPs for its contract administration function for proper communication. Meetings will continue with Divisions and Leadership regarding contractual matters as they arise.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Ongoing
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
3	DPW Director needs to formally require that the DPW Deputy Director of Finance provide a periodic summary report on contract administration function activities to the DPW Director.	Y	Contract Administrator will continue to provide bi-weekly Procurement Status reports to the Deputy Director of Finance. The Deputy Director reviews these reports and utilizes them to report monthly to the Director, on any pertinent internal procurement issues.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Deputy Director of Finance		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Ongoing
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
4	DPW Director needs to require a structured contract administration process that requires the Contract Administrator to monitor vendor performance through working with Project Managers and timely addressing vendor performance issues.	Y	Public Works will continue to adhere to the established SOPs for Contractor/Supplier Performance and Contract Renewals/Extension, modifications. During the renewal process and Division meetings, the Contract Administrator will continue to inquire if there are any performance issues with active contracts.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Contract Administrator		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Ongoing

MANAGEMENT RESPONSE FORM

2015-09 DPW Contract Administration and Compliance

#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
5	DPW Director needs to require a structured contract administration process that requires the Contract Administrator to address all contract administration function issues, such as maintaining an accurate and complete inventory of contracts, renewals, change orders, etc. in a timely manner.	Y	Contract Administrator will continue to meet with Divisions to discuss contractual issues. The Contract Administrator will continue to maintain an updated independent inventory of contracts, renewals, change orders, etc., on a monthly basis.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Contract Administrator		
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
			Ongoing
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
6	DPW Director needs to require a structured contract administration process that establishes performance measures for the Contract Administrator and Project Managers.	Y	Public Works will utilize the appropriate performance measures of the Department of Procurement Services for its Contract Administrator and Project Managers.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director		December 31, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
7	DPW Director needs to require Project Managers to: a. Obtain and retain all vendor documentation to support vendor charges b. Reconcile supporting documentation to invoice charges based on contract pricing	Y	DPW Director will issue a memorandum pertaining to record retention to include vendor documentation to support vendor charges.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director		December 31, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y-N	ACTION STEPS
8	DPW Director needs to require the Project Managers to verify and document proper compliance with terms, conditions, and deliverables of respective contracts.	Y	Public Works will continue to adhere to the established SOP for Contractor/Supplier Performance.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director / Project Managers		December 31, 2015
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION