



Office of the City Auditor

*Committed to increasing government efficiency, effectiveness,
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Citywide Temporary Services Contract Compliance Report#: 2018-03



Issue Date: November 14, 2017

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Richmond City Council

The Voice of the People

Richmond, Virginia

Office of the City Auditor

Executive Summary

November 14, 2017

Ms. Selena Cuffee-Glenn, Chief Administrative Officer

Subject: Temporary Service Contracts Audit

The City Auditor's Office has completed an audit of temporary service agencies' contracts. The audit was conducted in accordance with the generally accepted government auditing standards promulgated by the Federal General Accounting Office.

The table below depicts payments made to the contracted temporary staffing agencies during FY14, FY15, and FY16:

Fiscal Year	Total Payments
2014	4,369,190.65
2015	7,860,011.63
2016	7,559,045.93
Grand Total	19,788,248.21

Source: Auditor prepared with RAPIDS data

Salient Findings:

- The City's contract administration policies did not outline responsibilities for citywide contracts. Lack of delineated responsibility for the monitoring of the use of citywide contract terms and conditions may have led to contracts not being administered properly.
- Only Procurement Services has the ability to modify the contracts by soliciting price quotations for any position not on the approved listing. The departments must contact Procurement Services for any contract modifications. The auditor noted that in some cases, rates were higher or lower than the contract rates. This situation resulted in inaccuracies in processing the invoices.

- A temporary employee in a department had access to the supervisor's signature stamp for approving the temporary agency's hours, including his own. This situation can result in the City being overcharged or charged for hours not worked.
- Overall, the City does not have a standard criteria for conducting background checks for temporary employees. For 34 of the 41 positions sampled, background checks did not show any negative information. In the remaining seven background checks, a variety of misdemeanors were identified. According to various proposals, the background check types used by different temporary services agencies were inconsistent. Inadequate background checks conducted for the positions that have access to sensitive data could expose the City to the risk of compromising the systems and data.

The City Auditor's Office appreciates the cooperation of the City Department representatives that provided assistance during this audit. The responses to the recommendations made in this report are attached. Please contact me if you have any questions or comments.

Sincerely,

A handwritten signature in blue ink that reads "William C. Barrett, III". The signature is fluid and cursive, with a long, sweeping tail that extends to the right and then loops back down.

William C. Barrett, III, MFA, CPA, CFF, ABV
Interim City Auditor

cc: The Richmond City Audit Committee
The Richmond City Council
Ms. Lenora Reid, DCAO Finance & Administration
Ms. Mimi Terry, Interim Director of Procurement Services

Comprehensive List of Recommendations

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1	Director of Procurement Services needs to revise the existing contract administration policies and procedures to specifically include administration of citywide contracts.	10
2	Director of Procurement Services needs to provide training to applicable employees in City Departments for the revised contract administration policies and procedures.	10
3	CAO needs to establish and implement a standard citywide process for verifying and maintaining background checks for temporary services personnel.	10
4	Director of Public Works needs to discontinue using the signature stamp for the approval of temporary service invoices.	10

BACKGROUND

The City of Richmond contracted with several temporary services agencies in October 2013 to provide temporary staffing. These agencies allow the City to select from a large pool of candidates to fill a diverse range of Citywide needs. Each temporary services agency has different rates and terms and conditions, as outlined in each proposal accepted by the City.

The temporary services contract allows City departments to fill positions quickly to meet their required ongoing service demands. During the audit scope, the City used temporary staffing for services such as refuse collection, financial services, and customer service. The positions filled with temporary staff may be short-term or long-term depending on the needs of the City, the assigned tasks, or funding availability.

Funding

As a part of the annual budgeting process, the City departments are responsible for requesting funds needed for temporary services. The table below depicts payments made to the contracted temporary staffing agencies during FY14, FY15, and FY16:

Fiscal Year	Total Payments
2014	4,369,190.65
2015	7,860,011.63
2016	7,559,045.93
Grand Total	19,788,248.21

Source: Auditor prepared with RAPIDS data

Invoice Processing

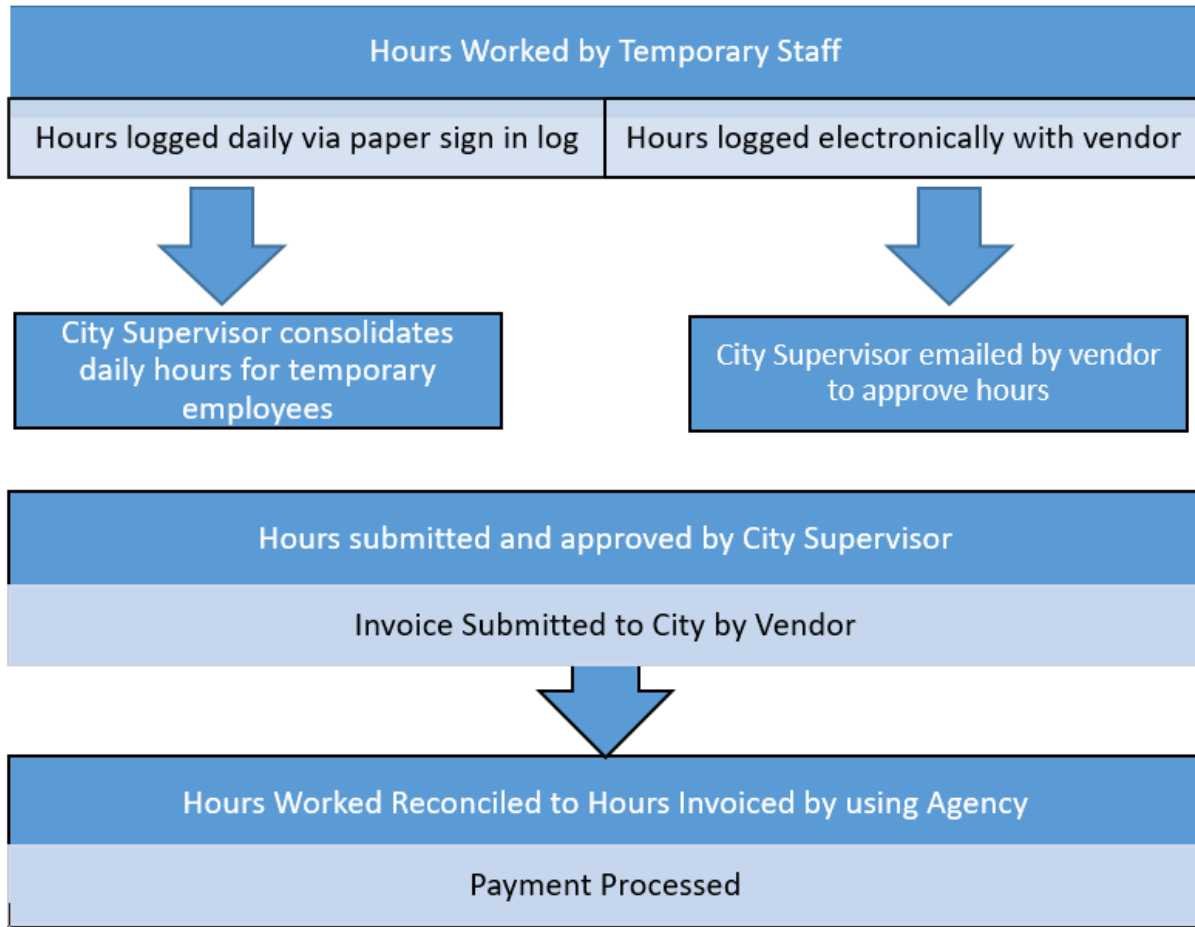
The payment process differed slightly among the temporary services agencies as some used either an automated or manual process. Below is a flowchart of the overall invoice processing:

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Source: Auditor prepared

FINDINGS & RECOMMENDATIONS

INTERNAL CONTROLS

Internal Controls Over the Temporary Services Contract Need Improvement

According to the 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 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; and
- Compliance with laws and regulations.

Based on the audit test work discussed below, the auditor concluded that internal controls over the temporary services contract need improvement:

Temporary Services Contract Monitoring Needs Improvement

Summary

- Policies and procedures were not in place for administering the Citywide Temporary Services contract. Lack of delineated responsibility for the monitoring of the use of citywide contract terms and conditions may have led to contracts not being administered properly.
- Departments directly negotiated with agencies to procure positions not included in the contract. The contract was not modified as Procurement was not aware of the needed change. Departments circumvented the procurement process by using the existing, approved position rates for the unapproved position.
- Procurement Services did not update the approved contract rates in RAPIDS, which resulted in the departments using improper rates.
- A temporary employee was authorized to use the supervisor's signature stamp for approving his agency's billing hours, which can be abused.

Contract Administration Policies

The City's contract administration policies did not outline responsibilities for citywide contracts. According to the Citywide contract listing for temporary services, the Department of Procurement Services was responsible for monitoring deliverables. However, the Department of Procurement Services indicated that City departments are responsible for the contract deliverables for citywide contracts. This situation may have created confusion and resulted in inconsistent practices and lack of appropriate guidance to the City departments for ensuring compliance with the terms and conditions of these contracts. As a result, the contract administration process was ineffective.

Contract Modifications

According to the Request for Proposal for Temporary Services, only Procurement Services has the ability to modify the contracts by soliciting price quotations for any positions not on the approved listing. The departments must contact Procurement Services for any contract modifications.

The auditor reviewed 108 invoices, which represented 132 separate temporary positions. The auditor identified nine positions that were not aligned with the approved contracts as follows:

- Four positions were not included on the approved contract price listing.
- For the other five positions, the rate charged was not in agreement with the contract price.

The unapproved invoice rates resulted in inconsistent charges to the City. According to Procurement Services, the departments were responsible for negotiating rates for the positions not included in the approved listings. During the audit period, the auditor observed that the departments independently negotiated these rates with the temporary agencies. In both cases, the departments were required to approach Procurement Services to make contract modifications. However, based on the above observations, these modifications were not made to the respective contracts indicating a breakdown in the process. The auditor also noted that in some cases, rates were higher or lower than the contract rates. All approved contract rates were not in RAPIDS, which resulted in inaccuracies in processing the invoices.

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The auditor found an example which represents a breakdown in the existing process as follows:

The Budget Department rehired the former Budget Manager as a provisional employee for four days after his retirement at a rate of \$60.79 an hour. Immediately after this period, the Budget Manager joined a temporary agency that charged a much higher rate for the position. The table below depicts this situation:

Type	Rate per hour	Included in Contract	Approved by Procurement
Provisional	\$60.79	n/a	n/a
Temporary	\$119.00	No	No

The auditor found the following two issues with the payments for this employee:

- Budget Department created a purchase requisition using an approved contract rate of \$26.40 for 598 hours. This action misrepresents the actual payment rate of \$119. However, payments were not processed against the resulting purchase order.
- Instead, the department circumvented the established procurement procedure and paid for this employee's services via an Invoice Payment Form, which is not an approved payment method. The accounts payable function acts as the City's control to prevent using unacceptable payment methods. In this case, these payments should have been rejected and returned to the Budget Department for proper processing.

The temporary services invoice rate was 96% higher than the employee's provisional pay rate. During the audit period, the Budget Manager worked a total of 131 hours resulting in total payments of \$15,605.66 to the temporary agency. This cost exceeds the employee's provisional salary rate for the same hours by \$7,633.66.

The above example represents a significant cost implication for the City. The auditor did not receive an explanation for moving the former employee from provisional employment to a temporary services vendor.

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Rate Variance Amongst Temporary Agencies

Due to the City having several temporary services agreements, similar positions were offered by multiple agencies at different rates. In some cases, the rates varied significantly. The variances between the high and low costs for the temporary agencies ranged from a difference of less than a dollar to as much as a \$14 per hour. The below table demonstrates some of the identified positions and salary differences:

<i>Position</i>	<i>Agency A</i>	<i>Agency B</i>	<i>% Difference</i>
<i>Accountant I</i>	\$20.25	\$34.25	69%
<i>Accounting Specialist</i>	\$15.88	\$25.56	61%
<i>General Office Clerk</i>	\$11.76	\$20.25	72%
<i>Customer Service Representative II</i>	\$15.88	\$19.18	21%

Source: Auditor Prepared from contract rates

Guidance was not available for the departments to choose an agency that would have provided the best suited candidate for the least cost.

Invoice Processing

From the same invoice sample above, the auditor tested for:

- compliance with the contracted rates;
- accuracy of calculation;
- proper support (timecards to support invoiced hours); and
- approval of the hours worked.

The auditor found:

Most of the Invoices were properly authorized and supported

The auditor found that work hours for 106 out of 132 temporary staff were properly supported with timesheets. Similar documentation was not found for the remaining 26 positions. This occurrence can result in the City paying for services not received or authorized. In addition, the City may pay excessive rates for services.

Invoices were mathematically accurate

The auditor recalculated the agency invoices based on the rates and hours. From the 132 sample items, all invoices were properly calculated.

Controls over invoice approval could be improved

A Department of Public Works (DPW) employee supervising the temporary employees sometimes used a signature stamp to approve their hours. The auditor noted that an employee working for the temporary services agency performed the conflicting administrative duties of compiling, reconciling, and submitting timesheets for fellow employees, including himself. He also had access to the supervisor's signature stamp and was authorized to use it for approving hours for the fellow temporary agency employees for billing purposes. DPW indicated that City personnel oversee the work completed by the temporary employee and use of the stamp was only done with their approval when City supervisors were not available. Although the temporary employee was supervised, the conflicting duties can result in the City being overcharged or charged for hours not worked. In addition, allowing a temporary employee to approve his own hours and overtime can lead to abuse.

Background Checks

The auditor reviewed 41 background checks for temporary staff from three City departments. For the selected 41 background checks, seven showed various misdemeanors and the remaining 34 did not show any negative information. The City departments did not obtain the background checks from the temporary agencies. However, the auditor independently obtained all background checks from the respective temporary agencies. The departments provided communications with the temporary agencies for seven of the 41 background checks.

Overall, the City does not have a standard criteria for conducting background checks for temporary employees. Each temporary agency identified the type of background check they would conduct in their proposals. According to various proposals, the background check types were inconsistent. The City accepts background checks conducted by the temporary agencies.

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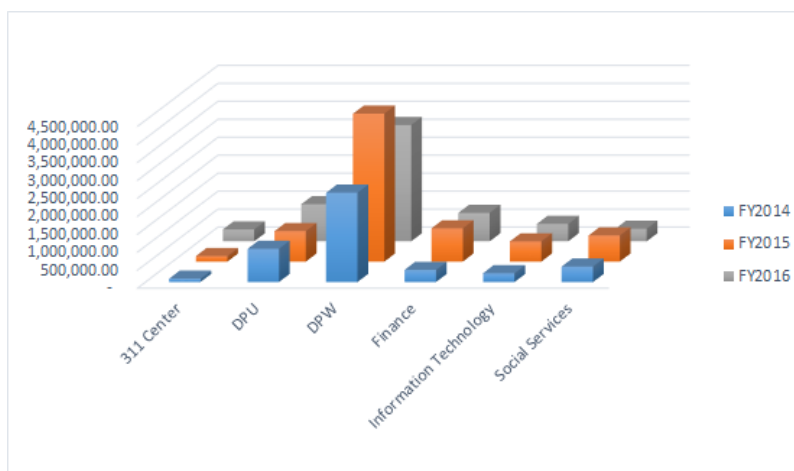
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The City departments did not seek verification of any of the completed background checks. Verification of background checks is critical for positions that have access to sensitive information. Inadequate background checks conducted for these positions could expose the City to the risk of compromising the systems and data. The auditor found that temporary staff are allowed identical access to the City systems and data as would be provided to a permanent employee in that position.

Cost Benefit of Hiring Temporary Services

During FY16, the City had approximately 470 vacancies citywide. The total requested funding for these positions was \$14,245,531. Only \$5,041,760 was funded, which is 65% underfunded. Due to underfunding, the City departments had to fill their vacancies with temporary staffing to provide citizen services using their operating funds. The below chart demonstrates the City departments with significant use of temporary services for FY14 – FY16:



Source: Auditor Prepared from RAPIDS data

The temporary services costs are analyzed as long term versus short term needs as follows:

Long Term Needs

Certain departments, such as DPW, relied heavily on temporary workers to ensure that services were properly provided. DPW has relied on temporary workers to deliver the refuse collection service for more than 10 years, due to the availability of workers when needed. Subsequent to the audit period, the

temporary services agency that DPW had relied upon for some time could no longer provide the refuse collector positions.

Recently, DPW hired 34 refuse collectors as provisional employees. The City's Policy allows hiring a provisional employee for 90 days without benefits. After 90 days, the City has an option to complete the formal recruitment process for these positions and pay them benefits. For the refuse collector position, the auditor compared the annualized compensation paid to the vendor for these positions of \$30,576 each to the cost of provisional employees of \$24,253. However, if hired after 90 days, the cost of the employees with estimated cost of benefits will be \$33,226. Although DPW has added the positions to the City, they still must use a temporary services agency for refuse collection. According to the Chief of Risk Management, hiring of the additional refuse collectors will increase the City's risk of workman's compensation claims. This cost will not be known until incurred.

Based on the above discussion, the following conclusions can be drawn:

- The use of the temporary services agency provided DPW with adequate staffing every day.
- For an extended period, DPW was able to provide refuse collection services effectively with temporary staff.
- The hiring of permanent employees will not eliminate the need for temporary employees.

To appropriately evaluate the cost effectiveness of staffing options for refuse collection or similar operations, additional analysis must be completed to determine long term costs of temporary versus permanent labor.

Short Term Needs

Departments such as the Department of Public Utilities, Finance, and Economic Development relied on temporary services agencies for short term needs either due to temporary vacancies or lack of funding. From time to time, the City needs to hire temporary employees to fill vacancies caused by retirement, terminations, extended sick leave, etc. In these situations, the City intends to hire permanent employees or use temporary staffing until the permanent employee returns.

Analysis

Overall, the City's cost depends on the agency and the position, which may result in higher or lower fees paid. The auditor identified 10 temporary services job descriptions corresponding to permanent City positions. For long term use of temporary positions, the rate was up to 26% lower and for short term use, the rate was up to 50% higher than corresponding City rates for permanent positions.

Overall, the City's use of temporary services is reliant on the needs of each department. They must evaluate which staffing options are more cost effective in the long run, minimize liability, and are most reliable. Therefore, a universal policy related to use of temporary services may not be possible.

Recommendations:

- 1. Director of Procurement Services needs to revise the existing contract administration policies and procedures to specifically include administration of citywide contracts.*
- 2. Director of Procurement Services needs to provide training to applicable employees in City Departments for the revised contract administration policies and procedures.*
- 3. CAO needs to establish and implement a standard citywide process for verifying and maintaining background checks for temporary services personnel.*
- 4. Director of Public Works needs to discontinue using the signature stamp for the approval of temporary service invoices.*

Appendix A: Objectives, Scope, & Methodology

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that the auditor 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 auditor believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

SCOPE

The City Auditor's Office has completed an audit of the Citywide Temporary Services Contract. This audit covers temporary service activities during the 12-month period that ended June 30, 2016.

OBJECTIVES AND METHODOLOGY

Overall objectives of the audit were to:

- To determine the adequacy of using temporary labor.
- Evaluate compliance with deliverables, and the terms and conditions of the contracts.

The auditor performed the following procedures to complete this audit:

- Interviewed staff and management;
- Reviewed policies and procedures;
- Conducted a walkthrough of the Temporary Services process;
- Reviewed and reconciled invoices;
- Analyzed costs of temporary versus permanent labor; and
- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

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

MANAGEMENT RESPONSE FORM

APPENDIX B

2018-03 Citywide - Temporary Services Contract Compliance

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	Director of Procurement Services needs to revise the existing contract administration policies and procedures to specifically include administration of citywide contracts.	Y	Procurement is currently updating all existing contract administration polices and procedures. The new/revised forms will be located on the Procurement website as well as StarNet.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Procurement Services		31-Mar-18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
2	Director of Procurement Services needs to provide training to applicable employees in City Departments for the revised contract administration policies and procedures.	Y	A citywide training on how to use forms and a relaunching of all procurement policies & procedures citywide will begin April 2, 2018
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Procurement Services		30-Jun-18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
3	CAO needs to establish and implement a standard citywide process for verifying and maintaining background checks for temporary services personnel.	Y	The CAO will inform the Interim Director of Procurement Services to contact all temporary service vendors of the City's requirement to secure and provide documentation of background checks for all temporary staff assigned to the City of Richmond.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	CAO		11-Sep-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
4	Director of Public Works needs to discontinue using the signature stamp for the approval of temporary service invoices.	Y	The Director of Public Works sent a directive to his senior staff to discontinue utilizing the signature stamp for approval of temporary services invoices.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Public Works		7-Sep-17
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION