



PERFORMANCE AUDIT REPORT

OF

DEPARTMENT OF FINANCE & ADMINISTRATIVE SERVICES
PURCHASING DIVISION

PROFESSIONAL/TECHNICAL CONTRACT
DEVELOPMENT & APPROVAL PROCESS

REPORT NO. 13-108



City of Albuquerque
Office of Internal Audit

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DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES
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TABLE OF CONTENTS

	<u>PAGE NO.</u>
Executive Summary	i
Introduction	1
Audit Objectives	4
Scope	4
Methodology	4
Findings:	
1. DFAS Should Require City Departments' Procurement Personnel To Obtain Additional Contract Training.	5
2. DFAS Should Review Its Internal Control Processes.	7
3. The CAO Should Ensure That Computer Access Is Disconnected When An Employee Terminates.	9
Conclusion	10

Professional/Technical Contract Development & Approval Process
Report No. 13-108
Executive Summary

The Office of Internal Audit (OIA) conducted a performance audit of the Department of Finance & Administrative Services (DFAS), Purchasing Division, Professional/Technical (P/T) Contract Development & Approval Process. The audit was included in the fiscal year (FY) 13 approved audit plan.

The Purchasing Division is the Central Purchasing Office for the City of Albuquerque and is responsible for providing material management support to user departments.

Objective: Is the Professional/Technical Contract Development & Approval Process efficient?

- City Departments should be required to attend additional contract development training.
- Contracts submitted by city departments to the Purchasing Division for approval, were returned to the departments, for corrections or additional information, up to and including five separate times.
- The average length of time for the Purchasing Division to approve a P/T contract, when returned to the contracting department, is 23.9 days.
- The average length of time for the Purchasing Division to approve a P/T contract, when contracts do not need to be returned to the contracting department for additional information, is less than 1 day.

Objective: Is the Professional/Technical Contract Development & Approval Process effective?

- Contract Tracking System (CTS) access is not revoked upon an employee's separation from the City.
- Of 300 individuals listed as having access to CTS, 55 were no longer employees and the employment status of eight individuals could not be determined.
- Of 23 professional/technical contracts selected for review, five contracts could not be initially located in the Purchasing Division, and one of the five contracts was not on-file at the City Clerk's office. Following the completion of audit fieldwork, and discussion with the Materials Management Officer, the missing contract files were located.
- The agreement dates of three contracts were later than the Time of Performance date, indicating that departments accepted services prior to the execution of the contracts.

Recommendations and management responses are included within the audit report.



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December 11, 2013

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Performance Audit
Professional/Technical Contract Development & Approval Process
13-108

FINAL

INTRODUCTION

The Office of Internal Audit (OIA) conducted a performance audit of the Department of Finance & Administrative Services (DFAS), Purchasing Division, Professional/Technical Contract Development & Approval Process. The audit was included in the fiscal year (FY) 13 approved audit plan.

Professional/Technical Services are defined as those services performed by or under the direction of a licensed professional, other professional technician, or other person with technical training, as more particularly defined by the City Purchasing Officer. The Purchasing Division is the Central Purchasing Office for the City of Albuquerque and is responsible for providing material management support to user departments.

The key business objectives of the Purchasing Division are to:

- Decrease the City's financial and legal liability by maintaining a standardized process of review for all professional/technical agreements, and
- Improve the effectiveness of departments' programming by efficiently reviewing their draft agreements for legal issues as well as assisting with the drafting of the scopes of services and methods of payments.

The complete contracting process consists of three phases – Contract Development, Contract Approval, and Contract Administration.

Contract Development

Within the City of Albuquerque, contract development begins at the departmental level. A City department identifies the need for a Professional/Technical contract, conducts the necessary research, gathers required information, and completes the Contract Information Form in the Contract Tracking System.

Contract Approval

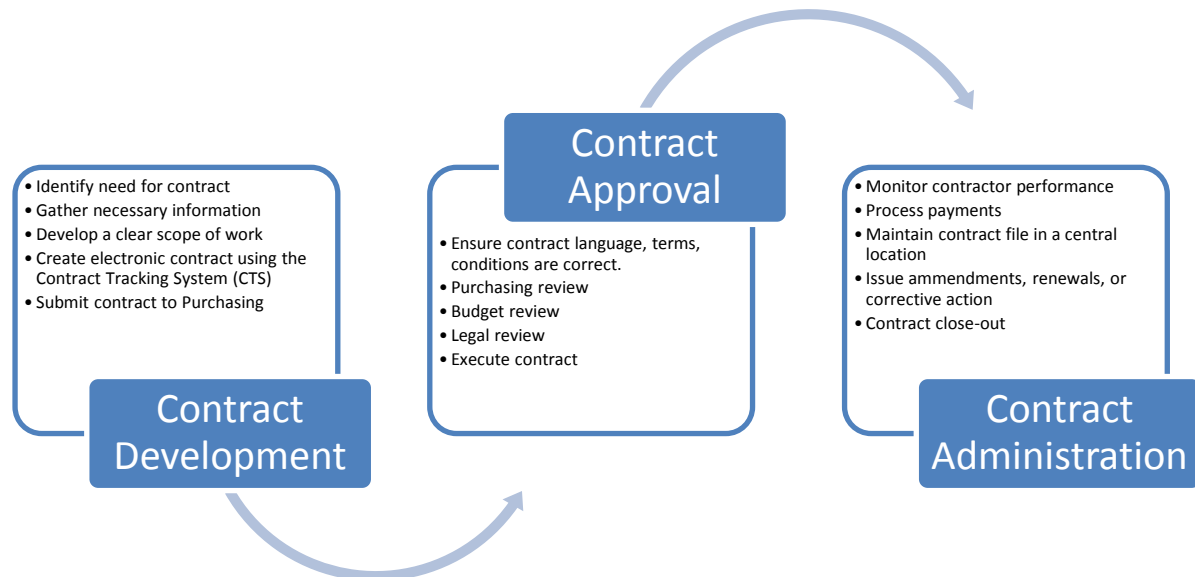
Once complete, the contracting department submits all information to the Purchasing Division for review and approval. The contract is reviewed for legal sufficiency to ensure that language, terms and conditions are accurate and clear.

Contract Administration

After the contract has been approved, the responsibilities revert to the contracting department for administration and monitoring.

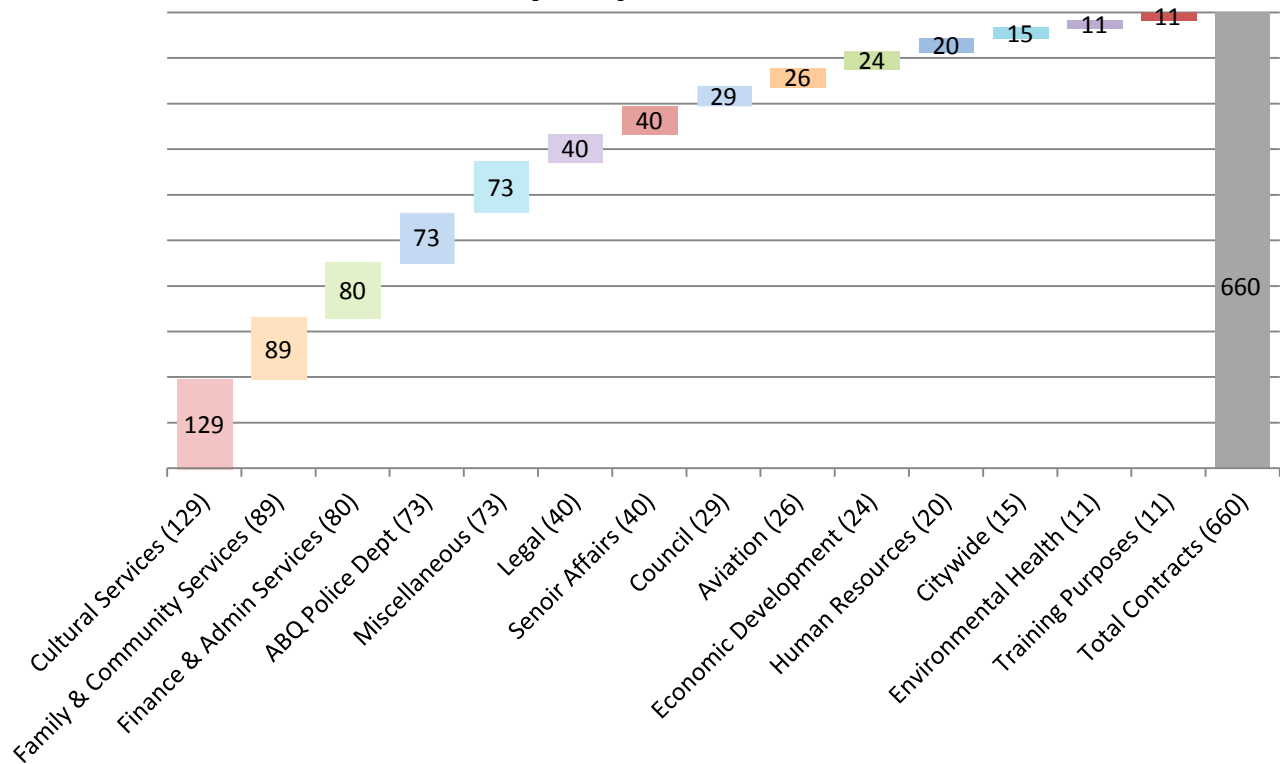
This audit focused solely on contract development and approval and did not address contract administration.

The graphic below shows the contract process.



The chart below illustrates the City departments responsible for the 660 Professional/Technical contracts and contract supplements developed in FY13.

FY 2013 Professional/Technical Contracts by Department



Note: The „miscellaneous“ category consists of departments having fewer than 10 Professional/Technical contracts

The Purchasing Division plays an important role in the successful operation of City government. In addition to Professional/Technical contracts, the Purchasing Division is responsible for reducing the number of purchase transactions; developing continuing contracts with vendors for specific, standardized capital items; developing and using contracts, procurement methodologies and purchase orders which will reduce accompanying paperwork; making contract awards for the acquisition of city equipment and machinery; and participating in an inter-departmental committee which addresses problems related to the overall procurement process, departmental requirements, awards, and payment process.

AUDIT OBJECTIVES

The objectives of the audit were to determine:



- Is the Professional/Technical Contract Development & Approval Process efficient?
- Is the Professional/Technical Contract Development & Approval Process effective?

SCOPE

Our audit did not include an examination of all functions and activities related to the Professional/Technical Contract Development & Approval Process. Our scope addressed the objectives above for FY 13.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of activities through the completion of fieldwork, September 9, 2013, and does not reflect events or accounting entries after that date.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

We utilized several methodologies to achieve the audit objectives. These evidence-gathering techniques included, but were not limited to:

- Interviewing key DFA personnel,
- Interviewing key Legal personnel,
- Identifying and testing internal controls,
- Flowcharting the contract development & approval process,

- Analyzing supporting documentation for a sample of contracts,
- Reviewing City of Albuquerque, Information Technology Department Policies and Standards,
- Reviewing applicable Administrative Instructions,
- Reviewing IT Governance Institute's Control Objectives for Information and related Technology (CobIT) audit guidelines, and
- Reviewing Governmental Accounting, Auditing and Financial Reporting (GAAFR), published by the Government Finance Officers Association.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. **DFAS SHOULD REQUIRE CITY DEPARTMENTS' PROCUREMENT PERSONNEL TO OBTAIN ADDITIONAL CONTRACT TRAINING.**

According to the Purchasing Attorney and the Contract Specialist, contracts submitted by the various departments often are incomplete, require clarification or additional information and must be returned to the submitting department.

City Departments need additional training from the Purchasing Division. Current training consists of "Contract Tracking System (CTS) training" and "Contracts 101" training. CTS training is required in order for employees to be granted access to the CTS program. Contracts 101 training is not mandatory and is offered for employees who would like a better understanding of how to draft contracts. There is not a requirement for employees to take refresher training courses.

The Purchasing Division's Purchasing Lawyer reviews Professional/Technical contracts and grants legal approval. Once submitted to the Purchasing Division for review and approval, 11 out of 23 Professional/Technical contracts tested (47.8%) were returned, up to five different times, to the submitting department without Legal approval. Legal approval was subsequently withdrawn for 6 out of the 11 contracts (54.5%) and the contract was placed in Draft mode. The average time for the Purchasing Division to approve a Professional/Technical contract when returned to the contracting department is 23.9 days. When contracts do not need to be returned to Departments for corrections, the average time to receive Legal approval is less than 1 day.

Three of the 23 Professional/Technical contracts selected for review were dated after the contracts' Time of Performance dates. Two of the three contracts had been initiated, but not approved, prior to the department accepting the services.

City policy pertaining to Contracts for Services states that "all contracts for technical or professional services, nonprofessional services, revenue producing agreements and intergovernmental agreements must be processed by the Purchasing Division prior to any services being performed."

According to the Materials Management Officer, departments may have been unaware that a professional/technical contract was needed as an agreement date subsequent to the time of performance date is a purchasing violation – the contracting department accepted services without first having a properly executed contract.

By requiring additional departmental training, the Purchasing Division would provide department employees with refreshed knowledge of contract requirements including appropriate contract language. As a result, the Division would improve efficiency as fewer contracts would be returned to the Departments without approval. By ensuring that a Professional/Technical contract has been executed prior to accepting services, the City may avoid unnecessary liability or delays in processing payments.

According to a white paper by Elegrity titled *'Ten Best Practices for Efficient Contract Management,'* standardizing the contract process will enable Legal departments to "stop „back-and-forth“ by documenting exactly which information is required from each person at each stage of the contract lifecycle for each contract type."

RECOMMENDATION:

DFAS should:

- Require that departmental employees authorized to create contracts attend annual contract training. Department employees should not be permitted to generate contracts without having taken the required updated training.
- Formally track the amount of time contracts spend in the Purchasing Division before receiving final approval in order to monitor the effectiveness of additional training and internal processes. This will also enable the Purchasing Division to identify struggling departments whose contracts are frequently returned.

RESPONSE FROM DFAS:

“DFAS Purchasing (Purchasing) agrees with the finding and agrees in part to the recommendations.

“Purchasing plans to replace the Contract Tracking System (CTS) with a new software program during FY14. All departmental employees who anticipate being users of this new system will be required to receive training. Access will not be granted without training. At the start of each fiscal year, commencing with FY15, all users will be required to receive annual training.

“Purchasing processes over 600 contracts annually and does not have the staffing capability to formally track the amount of time each contract is in Purchasing before receiving final approval to monitor the effectiveness of additional training. Rather than tracking each contract,

“Purchasing proposes to conduct a sampling from various users and departments to ascertain the effectiveness of its training.”

ESTIMATED COMPLETION DATE

“Training and monitoring policies to be implemented no later than July 1, 2014”.

2. DFAS SHOULD REVIEW ITS INTERNAL CONTROL PROCESSES.

The Purchasing Division should review its internal control processes. The following items were noted:

- Of a statistical sample of 23 professional/technical contracts selected for review, five contracts could not initially be located on-file in the Purchasing Division (22%). Following the completion of audit fieldwork and discussion with the Materials Management Officer, the missing contract files were located.
 - Of the five contracts not initially located at the Purchasing Division, one contract was not on-file at the City Clerk’s office.
- One contract on-file at the Purchasing Division was missing Appendix A which defined the contract’s method of compensation.
- One contract did not include the Material Manager’s signature.

According to the Materials Management Officer, two of the five contracts that could not initially be located were associated with a Request for Proposal (RFP). The remaining three contract files had initially been overlooked by the Purchasing Division staff. Though the Purchasing Division is not the custodian of official records, it is imperative to City business that contractual records are complete and available. According to the Purchasing Office's „Contract Process Overview,“ dated April 24, 2012, step 7, “Purchasing keeps one original contract on file with the purchase order.”

All contracts should be sent to the City Clerk for proper retention. The City Clerk is the “Chief Records Custodian” for the City.

Additionally, as stated in Administrative Instruction (AI) 1-1 (revised), other professional/technical services...are to be signed by the Department Director and Purchasing Officer [Materials Management Officer].

RECOMMENDATION:

DFAS should:

- Remind Purchasing Division staff of the proper filing process for various contracts.
- Review procurement internal controls to ensure that all files are complete and up-to-date and verify that a signed original contract is on file.
- Include a verification checklist in each contract file to aid the Purchasing Division in ensuring that all files are complete.
- Conduct a follow-up with the City Clerk to ensure all contracts submitted are, in fact, received.

RESPONSE FROM DFAS:

“DFAS Purchasing agrees with the finding and recommendations.

“Recommendations 2-4 are in place; however, due to staff shortages and turn-over during FY13, not all staff members were familiar with the internal controls or had the ability to ensure that all of the internal controls regarding the various contracts were being met at the time this audit was conducted. The Purchasing Customer Satisfaction Manager conducted individual training for each of the Processors (administrative support personnel responsible for file maintenance) during the month of

September. All other staff members received training on August 28, 2013.”

ESTIMATED COMPLETION DATE

“Completed.”

3. THE CAO SHOULD ENSURE THAT COMPUTER ACCESS IS DISCONNECTED WHEN AN EMPLOYEE TERMINATES.

Fifty-five of the 300 individuals with access to CTS, were no longer City employees. The employee status of another eight individuals could not be determined because they could not be located in the PeopleSoft HR Module; indicating that they had separated from City employment prior to January 2009. The City’s “Employee Clearance Form,” is general and unspecific about computer accesses that must be cancelled when an employee terminates.

According to the Materials Management Officer, user access has not been regularly terminated or suspended because there was concern that deleting an employee’s access would affect the associated data fields in CTS.

The Information Technology Services Department (ITSD) may not be aware of all computer accesses employees have. ITSD does not grant employees access to CTS, rather it is granted by the Purchasing Division.

CTS is not configured with “read only access;” therefore, each individual has full access to the system and is capable of creating a new contract or making changes to existing contracts. User accounts for terminated employees could be used to make unauthorized changes or to view unauthorized information. Transferred employees who formerly needed access to CTS may continue to have access even when access is no longer required for their job responsibilities.

Access to information systems should be granted based on the minimum requirements to perform job responsibilities; access rights should be promptly revoked when no longer required. According to COBIT 4.1 Objectives (DS5.3 Identity Management & DS5.4 User Account Management), user accesses should be granted only with a defined and documented business need and user accounts and related privileges (issuing, suspending, modifying, and closing accounts) should be reviewed regularly by management.

RECOMMENDATION:

The CAO should:

- Specify that “disconnect CTS access rights,” in addition to other computer accesses, be included on the „Employee Clearance Form” when an employee terminates with the City.
- Request that ITSD set up CTS access on an expiration schedule so that user access is automatically revoked following an established period of inactivity, for example, after six months of inactivity.

RESPONSE FROM CAO:

“DFAS Purchasing agrees with the finding and recommendations.

“DFAS through its ERP Division will address the “Employee Clearance Form” as it moves forward with its PeopleSoft remediation efforts.

“Annual training will determine access to CTS or its replacement program. The annual training will be a requirement for access renewal.

ESTIMATED COMPLETION DATE

“July 1, 2014”.

CONCLUSION

By accepting and implementing the recommendations in this report, the DFAS Purchasing Division can improve upon the valuable services it provides to the City and contractors.

- The Purchasing Division should require that City Departments attend contract training more frequently.
- The Purchasing Division should review its internal control processes and ensure that all staff have a clear understanding.
- Employee access to CTS should be revoked following the employee’s change of employment.

We appreciate the assistance and cooperation of the Department of Finance & Administrative Services, Purchasing Division personnel during the audit.

Contract Auditor

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APPROVED:

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