

# CONSULTING AND PROFESSIONAL SERVICES AUDIT



WEST PALM BEACH

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Internal Audit

Audit No. 19-03  
June 22, 2020

**City of West Palm Beach  
Internal Auditor's Office**

Beverly Mahaso, Chief Internal Auditor, Esq., CIA, CFE

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# Executive Summary

CONSULTING AND PROFESSIONAL SERVICES

AUDIT AUD19-03

June 22, 2020



## OVERVIEW

- The City of West Palm Beach utilizes the services of consultants and professional service providers in the areas of strategy development, management, core business operations, financial advice, human resources, and IT.
- Procurement facilitates contract requests, determines the procurement method and facilitates solicitations.
- We analyzed 72 agreements with combined budgets of about \$20 million and payments totaling about \$11 million as of April 2020.

## SUMMARY FINDINGS

1. **Inadequate Justification for Single Source Contracts:** We found 9 single source contracts that did not contain sufficient justification for not being competitively bid, and 3 single source contracts that did not have any justification letters for not being competitively bid.
2. **Inadequate Invoice Review Process:** We found 35 invoices that were signed by a reviewer but had no supporting documentation to substantiate the completion of services. We found 101 invoices that were not signed by a reviewer and 18 of the invoices had no support to substantiate the completion of services.
3. **Inconsistent Data Across Multiple Systems:** We found that there is no central repository to capture various data related to contracts. Further, there were many inconsistencies between the various databases such as invoices not linked to a P.O., contracts entered with zero-dollar value amounts, missing contractor's names, and negative values.
4. **Inconsistent Use of Contracts Database:** The Contracts Database is utilized by City employees and allows for Procurement oversight, however, we found 11 contracts that were not processed through the database.
5. **Improving Controls Over the Budget Approval Process:** We found that final budgetary approval for 13 contracts were provided by a Department Director instead of Budget Division personnel. Further, 11 contracts did not have documentation of budget approvals because they were not processed through the contracts database.
6. **Insufficient Contract Documentation:** There were 7 contracts where we could not obtain information as to what services were provided, why the services were needed, and/or why the contractor was selected.
7. **Screening Consultants and Professional Service Providers:** We found that contracts have signed Affidavit of Representations and Disclosure statements, however, we did not identify evidence indicating independent verification of these statements.
8. **Evaluating Vendor Performance:** We found that the Consultant Performance Evaluation Form is only being utilized by IT, Public Utilities, and Engineering, though all Departments should be evaluating vendor performance.

## SUMMARY RECOMMENDATIONS

1. Procurement, in collaboration with City Administration, should revise or enforce the Procurement Code such that written justification is required for all single source contracts over \$50k and written documentation should be maintained stating why Procurement approved a single source.
2. City Administration, in conjunction with department directors, should ensure that invoices contain sufficient information to substantiate services completed and are properly reviewed and approved for payment.
3. City Administration should work with Procurement and Legal to ensure that all relevant data is obtained and consistently entered into the various systems.
4. City Administration, in conjunction with the City Attorney's Office and Procurement, should establish policies and procedures that provide criteria for contracts that are not required to be processed through the Contracts Database.
5. Finance should establish policies and procedures that require budget approvals from the Budget Division.
6. Procurement, in collaboration with City Administration, should implement a project management process, whereby all documentation related to contracted services are stored in a central repository.
7. Procurement should evaluate software capable of screening contractors and, in the absence of software, document independent verifications of selected contractors.
8. Procurement should establish procedures that require all departments to complete periodic vendor performance evaluations and create a standardized template with evaluation criteria.



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June 22, 2020

Audit Committee  
City of West Palm Beach  
401 Clematis Street  
West Palm Beach, Florida

**RE: Consulting and Professional Services Audit, AUD19-03**

Dear Audit Committee Members:

Attached is the City of West Palm Beach's Internal Auditor's Office report on the Consulting and Professional Services Audit.

We thank the management and staff of the Procurement Department, Finance Department and the City Attorney's Office for their time, assistance, and cooperation during this audit.

Respectfully Submitted,

/s/ Beverly Mahaso  
Chief Internal Auditor

cc: Keith James, Mayor  
Faye Johnson, City Administrator  
Kimberly Rothenburg, City Attorney  
Mark Parks, Chief Financial Officer  
Frank Hayden, Procurement Official

## *Contents*

<b>BACKGROUND.....</b>	<b>4</b>
<b>STATEMENT OF SCOPE.....</b>	<b>5</b>
<b>STATEMENT OF OBJECTIVES.....</b>	<b>6</b>
<b>STATEMENT OF METHODOLOGY .....</b>	<b>6</b>
<b>STATEMENT OF AUDITING STANDARDS.....</b>	<b>6</b>
<b>AUDIT CONCLUSIONS AND SUMMARY OF FINDINGS .....</b>	<b>6</b>
<b>NOTEWORTHY ACCOMPLISHMENTS.....</b>	<b>7</b>
<b>CITY ORGANIZATION CHART.....</b>	<b>8</b>
<b>OPPORTUNITIES FOR IMPROVEMENT.....</b>	<b>9</b>
<b>1. INADEQUATE JUSTIFICATION FOR SINGLE SOURCE CONTRACTS.....</b>	<b>9</b>
<b>2. INADEQUATE INVOICE REVIEW PROCESS .....</b>	<b>13</b>
<b>3. INCONSISTENT DATA ACROSS MULTIPLE SYSTEMS .....</b>	<b>15</b>
<b>4. INCONSISTENT USE OF CONTRACTS DATABASE .....</b>	<b>20</b>
<b>5. IMPROVING CONTROLS OVER THE BUDGET APPROVAL PROCESS.....</b>	<b>22</b>
<b>6. INSUFFICIENT CONTRACT DOCUMENTATION .....</b>	<b>24</b>
<b>7. SCREENING CONSULTANTS AND PROFESSIONAL SERVICES PROVIDERS .....</b>	<b>26</b>
<b>8. EVALUATING VENDOR PERFORMANCE.....</b>	<b>28</b>

## Background

The City of West Palm Beach utilizes consultants and professional service providers in order to meet objectives and provide quality services in the following areas:

- Strategy Development;
- Management;
- Core Business Operations;
- Financial Advice;
- Human Resources; and
- Information Technology.

In addition, the City utilizes consultants and professional service providers to mitigate staffing shortfalls or for specific areas of expertise.

The Procurement Department is responsible for administering the sourcing of consulting and professional services as requested by the City’s departments and entities. These responsibilities include facilitating contract requests from the initial request to the contract execution. Procurement is also responsible for determining the procurement method, facilitating solicitations, monitoring small business programs, monitoring procedures for the Consultants Competitive Negotiation Act and developing policies and procedures surrounding the procurement process.

All sourcing arrangements for consulting and professional services are required to be made in accordance with the rules and regulations established by the City’s Procurement Code, in addition to local, state, and federal regulations. The goal of the City’s Procurement Department is to promote fair and equitable treatment of all consulting and professional service contractors and ensure the transparency of the sourcing process. Refer to **Table A** below for a summary of the City’s procurement requirements for the purchase of goods and services. The success of a centralized Procurement process remains dependent on the cooperation of all parties involved in the process (i.e. Procurement, Finance, Risk Management, Legal, and requesting Departments).

**Table A**

Dollar Value	Sourcing Requirements
Under \$10,000	1-2 informal quotes
\$10,000 \$24,999	Minimum of two (2) written quotes
\$25,000 \$50,000	Minimum of three (3) written quotes
\$50,001 \$100,000 (non construction)	Formal, competitive solicitation
Greater than \$100,000	Formal, competitive solicitation

Procurement is responsible for ensuring that contracts procured are at the best value and price available to the City. In addition, Procurement is responsible for educating City personnel in understanding the procurement process, as well as contract support services

offered to the departments.

In order to ensure an efficient sourcing process, City departments have a responsibility to furnish all required information related to their contract request and ensure adequate funds are in place and budgeted prior to submission of a formal request for goods or services. City departments are also required to have all the appropriate approvals (i.e., Finance, Risk Management, Legal, City Commission, and/or Mayor), prior to starting services. Finally, City departments are required to provide the Procurement Department with a clear and concise description of the services requested.

For the period of January 1, 2014 through September 30, 2019, we analyzed a random sample of 72 consulting and professional service agreements. The 72 agreements had budgeted amounts of about \$20 million and actual payments, as of April 2020, of about \$11 million. Refer to **Table B** below for a detailed breakdown of the budget to actual contract amounts under review.

**Table B**

Department	Number of Contracts Reviewed	Total Contract Budget	Actual Total Spent
Mayor's Office			\$2,819,497 <sup>1</sup>
IT	20	\$8,587,911	\$7,340,232 <sup>1</sup>
Police	3	\$67,125	\$66,892
Parks and Recreation	3	\$269,000	\$293,261 <sup>1</sup>
CRA	4	\$91,250	\$82,288
Support Services	2	\$36,900	\$34,505
Risk Management	1	\$2,250	\$2,250
Procurement	1	\$4,000	\$4,000
HCD	2	\$24,800	\$24,050
Human Resources	2	\$17,300	\$8,650 <sup>1</sup>
Public Utilities	1	\$12,000	\$14,461
Development Service	2	\$707,250	\$333,385 <sup>1</sup>
<b>Total</b>	<b>72</b>	<b>\$19,741,142</b>	<b>\$11,023,471</b>

## Statement of Scope

The scope of the audit was from January 1, 2014 to September 30, 2019 (audit period).

<sup>1</sup> These amounts include contracts that were active as of April 2020. Therefore, the actual amounts here may not be reflective of the final payment at the end of the contract term.

The audit included the review of the policies, procedures, and methodologies that govern the City's use of consulting and professional services to supplement operations.

## **Statement of Objectives**

The objectives of this audit were to:

- A. Determine whether the procurement process for consulting and professional services were performed in accordance with City regulations in a manner that promotes quality, integrity, and maximizes the purchasing value of public funds;
- B. Determine whether the City received the value for the services provided;
- C. Determine whether consultants and professional service providers were monitored and supervised; and
- D. Determine whether invoices were appropriately reviewed and adequately supported by project deliverables.

## **Statement of Methodology**

The methodologies used to meet the audit objectives included the following:

- Conducting extensive interviews and inquiries of personnel in Procurement, Finance, the City Attorney's Office as well as other City departments;
- Reviews of relevant state laws, the City's Code of Ordinances, and internal policies and procedures;
- Performing data analysis of the contracts and invoices under review during the audit period;
- Evaluating internal controls over the contract sourcing and invoice review process, including the contract workflow process from initiation of the request, through receipt and payment of the invoice in order to identify systemic issues; and
- Other audit procedures determined necessary.

## **Statement of Auditing Standards**

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

## **Audit Conclusions and Summary of Findings**

Overall, there are opportunities for the City to optimize the efficiency and effectiveness



surrounding the contract management process. Specifically:

- Revising current policies and procedures for single source procurements such that the Procurement Department maintains documentation to support the reason for approving single source contracts; and ensuring that there is sufficient justification for all single source procurements and in the event that justification is not adequate, then the competitive bidding process should be utilized;
- Ensuring that invoices are reviewed and approved consistently and contain sufficient documentation to substantiate the services performed;
- Standardizing data elements being entered, processed, transmitted and retrieved across multiple systems;
- Developing written policies and procedures to provide the criteria for determining whether contracts should be processed through the City Contract's Processing database or the "New Request for Legal Services" application. The written policies and procedures should include a centralized process for tracking and monitoring all contracts entered by the City;
- Streamlining the contract budget process by requiring only Budget personnel to approve the funding for the services;
- Establishing a process to ensure that contract documentation is maintained and can be easily accessible after employee separation;
- Establishing a process to verify contents attested to by contractors in the Affidavit of Representations and Disclosure statements; and
- Periodically assessing vendor performance for all departments that utilize the services of consultants and professional service providers.

## **Noteworthy Accomplishments**

We found knowledgeable and dedicated employees that were receptive to our recommendations for improvement. We acknowledge that the City Attorney's Office, Procurement Department, and the Finance Department have been proactive in streamlining the processes and taking corrective action. We also note that Administration decided to replace the Contracts Processing Database which should also streamline the process.

# City Organization Chart



# Opportunities for Improvement

## 1. Inadequate Justification for Single Source Contracts

### Condition

The Procurement Code was designed to ensure open, competitive bidding for contracts with the City. As such, justification is required for the use of single source contracts where competitive bidding is not utilized. Single source contracts are contracts where the Department identifies a single vendor to complete the work, though there may be other vendors that could perform the work. This is different from a sole source contract in that a sole source contract indicates that there is no other vendor anywhere that could perform the work.

For the period of January 1, 2014 through September 30, 2019, we reviewed a sample of 72 Consulting and Professional Service agreements and found 18 (25%) contracts that were in excess of \$50,000 and were procured as single source contracts instead of competitive bidding. We reviewed these contracts and found:

- 13 were from the IT department and 4 were reasonably justified,
- 4 were from the Mayor's Office and 1 was reasonably justified, and
- 1 was from the Community Redevelopment Agency (CRA) and it was reasonably justified.

### IT Single Source Contracts:

We reviewed 13 justification letters for the IT contracts and based on the explanations provided, we believe that 9 (69%) of the 13 single source requests were not reasonably justified. These contracts could have gone through competitive bidding for high dollar staffing contracts. We noted that the 9 justification letters were signed by the Procurement Department. However, we were not provided with supporting documentation or evidence of research performed to support the approvals. Therefore, we could not independently confirm the rationale for the use of these single source contracts instead of competitive bidding. We noted the following:

- Six of the requests were for application support services staffing contracts, with a combined budget of about \$1.6 million. The final amount paid to the five contractors at the end of the contract term was about \$1.2 million.
- Two of the requests were for staff augmentation services contracts with a combined budget of about \$736,000. The final amount paid to the two contractors at the end of the contract term was about \$745,000.
- One of the requests was also for an application support services staffing contract, however this contract was still active and set to expire in March 2021. The budget

amount was about \$1.3 million. At the end of our review, about \$750,000 had been paid to the contractor.

#### Mayor's Office Single Source Contracts:

We noted similar conditions for three contracts from the Mayor's Office, in that they were in excess of \$50,000 each and were also procured as single source contracts without going through the competitive bidding process. However, these three contracts did not have any justification letters for the use of a single source and two of the contracts did not involve the Procurement Department in the process. The combined budget for these three contracts was about \$9.1 million. At the conclusion of our review, the final amount paid could not be finalized because one contract was still active and had about 4 years remaining.

#### **Criteria**

Procurement Code 66-32 states that the Procurement Official has the authority and duty to maintain records pertaining to procurement and such records shall include documentation which supports actions taken and decisions made. The Code further states that the procedures established by the procurement official pursuant to this article shall provide for obtaining sufficient price quotations and product information to ensure that the goods, services, or construction being procured represent the highest quality at the most reasonable cost. Such procedures shall require the preparation and maintenance of written records which adequately document the quotations obtained, properly account for the funds expended, and facilitate an audit of the purchase made.

Procurement Code Section 66-64 for single source contracts states that "upon the receipt of justification from the user department and the proposed single source, the procurement official may select a single source without competition, if [after] conducting a search for available resources, the procurement official determines that only a single source is practicable or for other reasons single source selection is in the City's best interest. Upon the procurement official's written approval of single source selection, contract negotiations shall commence with a single source."

#### **Cause**

Procurement indicated that there were instances when contracts were brought before the Commissioners, but they were not aware of the contracts. There were other instances when departments insisted that they needed expedited contracts and would obtain support from the prior Administration to expedite the contracts.

Based on discussions with current IT management and the former IT Director, during the years 2016 through 2019, the IT department utilized consultants for staffing and support services due to high staff turnover. We were advised that employees were leaving due to strained relationships with upper management and/or for better opportunities. The rapid loss of staff exacerbated a lack of expertise and institutional knowledge within the IT department. This led to utilizing the single source contracts process instead of the competitive bidding process. We acknowledge that current IT management has been

moving away from consultants and has already reduced its use of consultants by hiring full-time employees.

### **Effect**

The Procurement Code was designed to promote the fair and equitable treatment of all parties interested in doing business with the City and to ensure transparency in the procurement process. This includes exceptions that would be in the best interest of the City. When contracts are awarded to a single vendor and do not go through the competitive bidding process, there is a risk that:

- The City may not obtain the best value and price for the services,
- Services provided may be substandard, less effective, or less efficient, and
- Preferential treatment may be given to certain vendors.

We note that there is a significant cost to the City when consultants are used for extended periods instead of hiring employees or having the consultants train employees. As stewards of public funds, it is important to remain fiscally conservative and perform cost-benefit analyses to ensure that the course of action taken is prudent and fiscally sound.

### **Recommendation 1**

The Procurement Department in collaboration with Administration, should ensure transparency and equitable treatment of vendors by:

- Revising or enforcing the Procurement Code such that,
  1. Written justification is required for all contracts over \$50,000 that do not go through the competitive bidding process, and
  2. Written documentation is maintained stating the reason(s) why Procurement approved contracts that did not go through the competitive bidding process and written documentation of Procurement's research;
- Requiring departments to notify Procurement of all contracts over \$50,000 even if the contracts are not being placed for competitive bids;
- Ensuring that Procurement notifies the departments if they have any concerns with contracts not being placed for competitive bids;
- Updating policies and procedures to reflect changes made; and
- Providing training to employees on the changes.

If revisions to the Procurement Code will take an extended amount of time to implement, then in the interim, the Procurement Department should develop and implement policies and procedures that meet the above recommendations.

### **Management Response 1**

#### Procurement and City Attorney's Office Management Responses

Currently, the Procurement Department requires written justification for all contracts over \$50,000 that do not go through competitive selection. This process also requires departments to notify Procurement of all contracts over \$50,000, even if not being placed

for competitive bidding. Furthermore, written justification letters currently include documentation stating the reason why Procurement approved contracts that were not competitively selected. In addition, since Procurement has the final determination as to how a contract is procured, we will notify the department if there are any concerns with the contract not being competitively selected.

Procurement will also review and update the Procurement code and existing procedures and provide training to employees on the changes.

#### IT Management Response

In response to the “Inadequate Justification for Single Source Contracts” finding in the recent internal audit report, the IT Department will implement processes that require CIO approval of any single source contract requests. The CIO will not approve any single source contract unless adequate support and documentation are provided to both the Procurement Department and Legal Department for verification and approval. If these departments determine there is insufficient justification for a single source contract, the contract will go to bid. As CIO, I fully understand the need for transparency and legal requirements for fair and open bidding. Additionally, the IT Department is working to limit the number of available contract positions. This effort will provide cost savings to the City as well as limit the number of contracts needed moving forward.

#### **Target Implementation Date:**

- October 2020 (Update Procurement policies and procedures)
- December 2020 (IT policies and procedures)

## **2. Inadequate Invoice Review Process**

### **Condition**

Prior to payment of invoices, departments are responsible for ensuring that services were delivered in accordance with contractual provisions and preparing adequate written documentation to support the payment.

We reviewed the 72 Consulting and Professional Service agreements and found 628 invoices associated with these agreements. We analyzed a statistically valid sample of 219 (35%) invoices and noted the following:

- 118 (54%) invoices were signed by a reviewer.
  - Of the 118 signed invoices, 35 (30%) had no supporting documentation or description to substantiate the completion of services or deliverables of key milestones. The City paid about \$358,000 for these 35 invoices.
- 101 (46%) invoices were not signed by a reviewer and had no documented evidence of review. The City paid about \$2.7 million for these invoices.
  - Of these 101 invoices, 18 (18%), had no supporting documentation to substantiate the completion of services or deliverables of key milestones and had no evidence of review. These 18 invoices came to a total of about \$1.3 million paid by the City.

### **Criteria**

The standard contract language for Consulting and Professional Service agreements requires that:

- Payment be made upon satisfactory completion of the services or in accordance with an agreed upon payment schedule that is tied to deliverables, and
- Invoices must show the nature of the services as well as the dates of service.

City Code Section 66-98 states that:

- The user department shall have primary responsibility for contract administration,
- Staff shall be assigned to receive, inspect, and otherwise monitor the procurement to ensure that the contract is performed according to its terms, and
- Contract administration shall include preparation of adequate written documentation to support contract payments and determination of compliance with all contract terms.

### **Cause**

The conditions above were the result of insufficient oversight at multiple levels over contracts, particularly the payment of invoices. Further, policies and contractual provisions designed to protect the City against inappropriate payments were not consistently followed which resulted in a breakdown of internal controls.

## **Effect**

In the absence of consistent reviews of invoices and supporting documentation, payments could be made for:

- Services not delivered
- Services not within the scope of the contract
- Over pricing/ Over charging
- Substandard work
- Overpayments
- Duplicate vendor payments

## **Recommendation 2**

City Administration, in conjunction with department directors, should ensure that invoices contain sufficient information, are properly reviewed and approved for payment by:

- Requiring department staff to obtain invoices from vendors that clearly state the work performed and include supporting documentation, and
- Ensuring that the procedures in place align with the Code and general contractual provisions particularly those related to requiring reviewers to receive, inspect, and monitor procurements.

The Finance Department should verify that procedures have been followed prior to payment and City Administration should enforce the procedures to ensure consistent compliance across all Departments.

## **Management Response 2**

The Finance Department accepts the analysis of the stated condition. As part of the accounts payable processing, we will monitor the invoices presented for payment and ensure that work performed is evident and supported.

**Target Implementation Date:** August 1, 2020



### 3. Inconsistent Data Across Multiple Systems

#### Condition

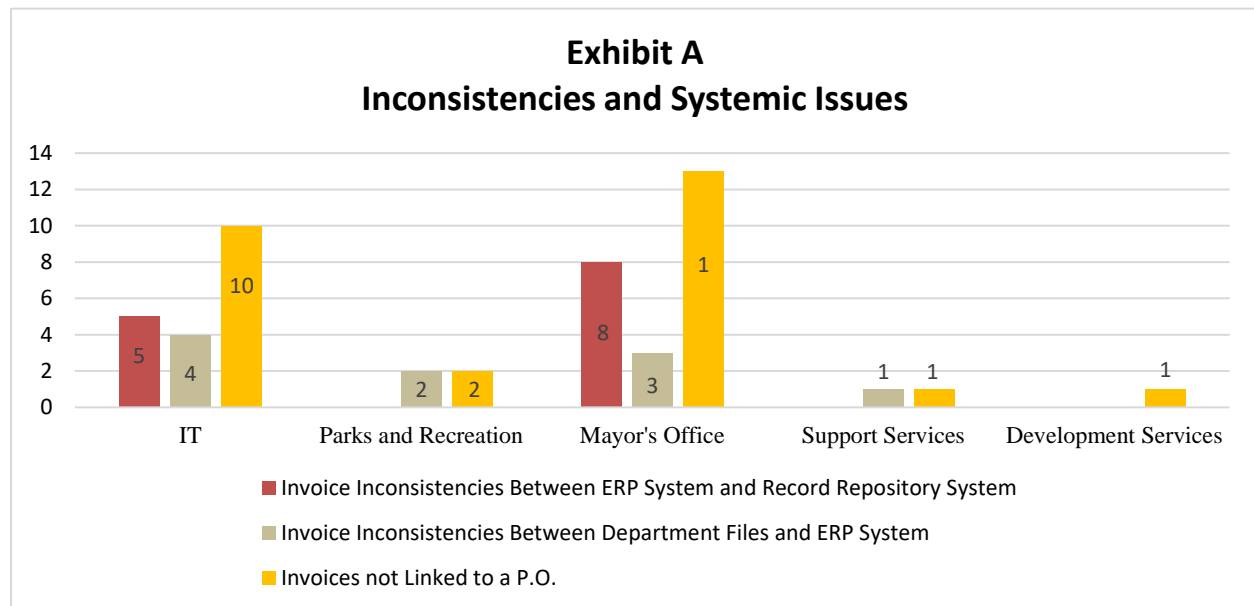
##### Data Standardization and Systemic Issues

We found that there is no central repository that captures the various data related to City contracts. The City Contracts Processing database (contracts database) was designed for processing contracts subject to the procurement process to ensure that all relevant parties such as Procurement, Finance, Risk Management and Legal, approve the contracts. However, it does not contain information on all contracts.

We reviewed 72 Consulting and Professional Service agreements and noted inconsistencies and other systemic issues between the contracts database, the departments records, the ERP system (Oracle) and the records repository system (Filenet). We reviewed the details of the contracts and the corresponding invoices and noted the following issues and inconsistencies:

- We found 13 contracts where the total vendor invoices for the related contract and Purchase Order (P.O.) in the records repository system, did not match the total vendor invoices recorded in the ERP system;
- We found 10 contracts where the total number of invoices submitted by the contractor and maintained by the departments, did not match the total number of invoices recorded within the ERP system; and
- We found 27 contracts that had invoices that were not linked to a P.O. in either the City's ERP system or the records repository system.

The following chart, Exhibit A, displays the inconsistencies per Department.



Due to the above challenges, we relied on the departments to provide us with all the invoices for the contracts, since maintaining and tracking vendor invoices is within the scope of managing and monitoring department contracts. In the cases where the

departments provided us with fewer invoices than what was reflected in the ERP system, we reviewed additional invoices from other contracts to determine how other invoices were reviewed and to attempt to locate the invoices. Finally, for contractors with multiple agreements with the City, we were unable to determine whether all the invoices provided were related to the contract under review.

### Contract Processing Requirements

We identified numerous limitations and inconsistencies within the City Contracts Processing database. In spite of missing information, contracts were still processed and approved. In particular, for the listing of consulting and professional service contracts that we were able to generate (4,834 total contracts, valued at approximately \$1.4 billion), we noted the following:

- 2,866 zero-dollar value contract amounts,
- 996 missing contractor's names,
- 12 contracts entered with a budget of \$1 assigned to the request, and
- 7 negative contract values (about -\$1 million).

### **Criteria**

#### Data Standardization and Systemic Issues

Integrating the organization's Enterprise Resource Planning (ERP) system with other primary business applications enables the standardization of work-related data which leads to more efficient and effective processing of large amounts of data.

Furthermore, in order to optimize an organization's system of internal controls, all systemic errors and inconsistencies should be investigated and corrected.

### Contract Processing Requirements

As part of the City's contract management system, when requesting and processing a contract through the City Contract Processing database, there are five basic fields related to the contract that are required to be completed by the requestor. The five basic fields include 1. Project Information, 2. Attachments to support the scope of services, 3. Department Staff involved with the request, 4. Budget/Funding Approvals, and 5. General Comments.

### **Cause**

The conditions above were the result of the following:

- The Form Contract template is utilized to enter most consulting and professional service agreement requests, but the template does not have the "estimated amount of project" field in the database. As a result, the "project estimate" column will not populate. This results in zero-dollar value contracts;
- There are no policies or procedures in place requiring the standardization of information entered into the City Contracts database;
- Departments may submit requests to process payments using the 121 process which may not be matched to purchase orders; and

- Poor communication between the Departments on standardization and consistency of data being entered, processed, transmitted and retrieved.

We acknowledge that when the City moved away from Lotus Notes and switched to Office 365, the City decided to replace various Lotus Notes databases which included the Contracts Processing Database. However, the replacement of this database is subject to competing priorities and availability of funds.

### **Effect**

When key information is not standardized across multiple systems that are related it could lead to:

- Transaction errors,
- Duplicate payments,
- Payments to the wrong vendors,
- Delayed payments to vendors,
- Lack of accountability among the departments,
- Inadequate tracking and monitoring of data,
- Missed opportunities for improvement that are not identified and investigated, and
- Information and reports may not be accurate or accessible in a timely manner.

**Recommendation 3A** - City Administration should work with Procurement and Legal to ensure that all relevant data is obtained and consistently entered into the various systems by:

- Gaining an understanding of the systemic issues occurring between the City's ERP and record repository systems and taking the necessary corrective actions to resolve the issues;
- Establishing documented policies and procedures for the standardization of data elements being entered, processed, transmitted and retrieved. The policy should include guidance for investigating unmatched purchase orders, 121 forms, and invoices and set requirements for how information is entered. Contracts that are missing critical information in the system should not be processed unless there is a valid and documented reason;
- Creating a process to track and monitor all contracts entered into the City Contracts Processing database. This process should include a periodic quality assessment review to maintain the integrity of the database;
- Ensuring that the new system does not inherit the errors in the current system and has built in logic capabilities to route contracts to the correct department;
- Ensuring that the new system is capable of tracking and monitoring all contracts entered into the database and interfaces with other City applications; and
- City Administration should determine the appropriate party to provide oversight and ensure consistent application of policies and procedures.

**Recommendation 3B** – As related to the operations and functionalities of the databases identified above, IT should ensure that the databases are operating as intended by:

- Working with the departments and database administrators, to determine the design, configuration, and programming of the databases, how the databases interface, and the capabilities and limitations of the databases. Based on a clear understanding of the databases, the Departments and IT should work together to identify viable solutions, considering constraints such as funding availability;
- Ensuring that there are defined roles and responsibilities as well as policies and procedures to build a City-wide data management platform,
- Continuing to ensure that dedicated resources tasked with managing the systems are available to assist the departments; and
- Ensuring that new systems, applications, or databases do not inherit the issues identified in the current databases.

**Recommendation 3C** – Finance should ensure that the issues identified above are not present prior to final invoice processing and payment application. In the event, issues are identified, Finance should notify the relevant department and seek corrective action from the department.

### **Management Response 3A**

The Procurement Division has provided training to all departments on the use of the procurement contract database and continues to do so on an as-needed basis. The system also has a user guide accessible in the database which can be printed to guide users in entering data.

The Procurement Division also previously started ensuring that contract and dollar amounts are entered when applicable. This corrective action occurred after the study period of this Inquiry, however, some contracts, such as master contracts, will not have an assignable dollar value.

We also currently track and monitor all contracts entered into the procurement database. Once an entry is approved by the department director, it is regularly monitored by Procurement and City Attorney staff. Emails are regularly sent to ensure the item move through the process. We recognize that the system was not well-maintained in the past while under the control of others. Therefore, adequate administrative procedures will be established for the new system.

Lastly, the purpose of the procurement contract database was to provide for the electronic submittal, approval and processing of procurement and the related contracts. It was never intended to have an accounting function. Our understanding is that the City is seeking to replace the Lotus Notes database functions with a simple and very economical new system. The selection of the replacement contract database will be constrained by the budget appropriated for the system. We do not believe that the budget will be provided for a system that will interface with other City applications. However, procurement and the City Attorney's Office will assist in the implementation of specific solutions recommended by Internal Audit.

**Auditor's Comments:** We are not recommending a software that provides accounting functions, rather we are recommending a software that captures data related to contracts which would include the budgeted amount for the contracts and to have logic capabilities for the purpose of routing the contracts to the correct department.

**Target Implementation Date:**

- Policies and procedures - October 2020
- Data Consistency - As coordinated with Administration and Finance
- New System - When Funded

**Management Response 3B**

IT agrees with the recommendations above and wants to assure everyone that the IT team is committed to ensuring all departments have the necessary data and database infrastructure to support their business needs. Contained in our current strategic roadmap are goals to improve or implement all the recommendations mentioned above. Additionally, based on available funding we have plans to perform a City-Wide data analysis/data cleansing and build a centralized data warehouse.

**Target Implementation Date:** Data Analysis/Data Cleansing – When Funded

**Management Response 3C**

The Finance Department accepts the analysis of the stated condition. We will monitor the system and integrity of the relevant data to ensure that prior to invoice payment, the identified issues, if present are corrected.

**Target Implementation Date:** August 1, 2020

## **4. Inconsistent Use of Contracts Database**

### **Condition**

The Procurement and Contract Methods document provides guidance on how contracts should be processed including stating whether or not contracts should be processed in the Contracts Processing Database. We reviewed 72 Consulting and Professional Service agreements, and noted that 11 (16%) agreements, with contract budgets of about \$8.5 million, were not processed through the Contracts Processing database as recommended in the guidance. The purpose of the Contracts Processing Database is to ensure that contracts are allocated budgets, legally sufficient, and approved. This database allows for Procurement Department oversight and is available for use by City employees.

### **Criteria**

The “Procurement and Contract Methods” document, was created by the City Attorney’s Office, and requires all contracts to be processed through the City Contracts Processing database with the exception of Murals/Artists and any interest in real estate. Though originally intended for internal use within the City Attorney’s Office, it has now been provided to end users and appended to the Procurement Department’s policies and procedures.

### **Cause**

There is no central repository for processing contracts, instead multiple systems are required to obtain information on a single contract. Based on discussions with the City Attorney’s Office, contracts that are not processed through the Contracts Processing database are initiated through the “New Request for Legal Services” application. We were advised that all requests for legal services are facilitated by the City Attorney’s Office and stored within their Case Management system. This database is for the use of the City Attorney’s Office personnel and is not available to other City employees.

### **Effect**

Lack of a centralized repository system for processing contracts creates challenges in terms of tracking and monitoring all contracts. We note that the Procurement department may not be aware of contracts that are processed through the Request for Legal Services application. Thus, there may be inconsistencies in requirements for contracts.

### **Recommendation 4**

City Administration, in conjunction with the City Attorney’s Office and the Procurement Department, should ensure consistency in processing contracts by:

- Establishing written policies and procedures that provide the criteria for contracts that are not required to be processed through the City’s Contracts Processing Database and periodically updating the criteria as needed,
- Ensuring that the contracts receive all approvals from the relevant departments,
- Developing a centralized process and database for tracking and monitoring all contracts entered into by the City, and
- Providing training to the Departments.

As mentioned previously mentioned, we acknowledge the City's decision to replace the Contracts Processing Database, though its replacement is subject to competing priorities and the availability of funds. In the absence of a new database, we encourage the implementation of all other opportunities to improve.

#### **Management Response 4**

The City's Attorney's Office and Procurement will prepare a written policy with criteria identifying the contracts that are required to be processed through the procurement contract database. It would be impossible to develop a comprehensive list of "everything else" or the criteria for such. There are new and varied categories of contracts that come before the City and it is impossible to predict what may be proposed. However, we will periodically update this policy.

In addition, with regards to contracts that are not required to be processed through the procurement database, the City Attorney's Office currently ensures department and Risk Management approval, where appropriate.

With regards to developing a centralized process for tracking and monitoring all contracts entered into by the City, we will consider whether the new contract database should be used to process all City contracts, based on budget constraints, system capacity and the desire to not create duplicative systems or bureaucratic repetition.

#### **Target Implementation Date:**

- Update Policy - October 2020
- New System - When Funded

## **5.Improving Controls Over the Budget Approval Process**

### **Condition**

For the period of January 1, 2014 through September 30, 2019, we reviewed 72 Consulting and Professional Service agreements, and noted the following:

- 11 (16%) contracts were not processed through the contracts database. Therefore, there was no documentation of budget approvals by the Finance Department's Budget Division.
- From May 2018 through September 30, 2019, final budgetary approvals for 13 (18%) requests for contracts, were provided by a Department Director instead of the Finance Department's Budget Division.

### **Criteria**

All requests for contractual services that are processed through the Contracts Processing Database are required to follow the system's approval workflow which includes confirmation that funding is available for the contract requested. Around 2018, the City's Chief Financial Officer changed the contract request process such that Departments had to go through the Finance Department's Budget Division to confirm that funds were available during the contract request process.

In order to maintain an effective system of internal controls surrounding the budget approval process, the department initiating a request for contractual services should be separate from the department that approves the project's budget.

### **Cause**

Currently there is no written policy or procedure in place that provides guidance on the requirements for the budget approval process for contractual services.

### **Effect**

It should be noted that appropriate segregation of duties is critical to an effective system of internal controls. Without sufficient controls, contracts could be executed without sufficient funding. Further, having a third party such as a budget analyst, reviewing budgetary information may help to control spending and remain fiscally conservative with public funds.

### **Recommendation 5**

The Finance Department should continue its efforts to ensure that there is sufficient funding for contracts by:

- Establishing policies and procedures that require documented budget approvals from the budget division during the processing of contracts,
- Providing training on the new procedures, and
- Periodically reviewing contracts to ensure consistent application of policies and procedures.



**Management Response 5**

We agree with the analysis of the stated condition. To address improving controls over the budget approval process for contractual services, the Finance Department will formally establish procedures to assure there are dollars budgeted for contracts before they are approved. Internally, we will continue to assure that contracts are reviewed to ensure consistent application of the policies and procedures.

**Target Implementation Date:** August 30, 2020

## **6. Insufficient Contract Documentation**

### **Condition**

During our analysis of the 72 Consulting and Professional Service contracts, we found 7 (10%) contracts where we could not obtain information to conclude with certainty:

- What services were provided,
- Why the services were needed,
- Why the particular contractor was selected, and/or
- Whether the City received the value for the services provided.

We researched these contracts to determine who may be able to provide us with more information about the contracts. Ultimately, we were advised that no one could provide explanations on these contracts because those who may have had knowledge of the contracts were no longer employed by the City.

### **Criteria**

Procurement Code 66-32 states that the Procurement Official has the authority and duty to maintain records pertaining to procurement and such records shall include documentation which supports actions taken and decisions made. The Code further states that the procedures established by the procurement official pursuant to this article shall provide for obtaining sufficient price quotations and product information to ensure that the goods, services, or construction being procured represent the highest quality at the most reasonable cost. Such procedures shall require the preparation and maintenance of written records which adequately document the quotations obtained, properly account for the funds expended, and facilitate an audit of the purchase made.

The State of Florida's "Basics of Record Management" guidance states that "proper record management ensures that information is available when and where it is needed, in an organized and efficient manner, and in an appropriate environment". The guidance also states that the benefits of good record management include increased efficiency and retrieval of information.

### **Cause**

Key personnel with oversight responsibilities for the contracts are no longer with the City of West Palm Beach. In addition, there are no policies or procedures in place to ensure the transfer of knowledge upon employee separation with the City.

### **Effect**

The City has been entrusted with public funds and is responsible for properly managing these funds which includes ensuring that adequate records are maintained. Without sufficient records or institutional knowledge, it is difficult to validate expenditures made of public funds which decreases transparency.

## **Recommendation 6**

The Procurement Department, in collaboration with City Administration, should ensure that sufficient documentation and institutional knowledge are maintained by:

- a. Implementing a project management process, whereby all documentation related to contracted services (i.e. agreements with service providers, deliverables, statuses, and verbal communications worthy of documenting, etc.) are stored in a central repository that is available to other City employees, as a point of reference for the contract. Information maintained should be such that others may determine the nature of services provided, milestones achieved, and items that remain outstanding for the satisfactory completion of services.
- b. Ensuring that Department heads have procedures in place for knowledge transfer in the event of employee separation. This should include proactive continuous documentation that is regularly maintained instead of creating documentation during the last days before an employee separates from the City.

We note that oversight and guidance should originate from Administration because these changes may impact many City Departments and Administration has the authority to enforce these changes.

## **Management Response 6**

FileNet is the City repository for contract documents and each contract can be found there. The department with ownership of the contract is responsible for the monitoring and administration of its contracts pursuant to Sec. 66-98 of the City Code. Departments, not the Procurement Division, are responsible for the project management process. Engineering Services has a specialized software for project/contract management process. Notwithstanding, nothing prevents departments from duplicating the storage of project management documents in the procurement database.

**Auditor's Comment:** We acknowledge that Departments are responsible for their contracts. Thus, City Administration should take a leadership role in ensuring that Departments monitor their contracts and maintain adequate records.

**Target Implementation Date:** Departments can implement this immediately.

## **7. Screening Consultants and Professional Services Providers**

### **Condition**

During the procurement process, contractors must sign an Affidavit of Representations and Disclosures document which is a part of the standard City contract. These representations and disclosures confirm that the contractors are not subject to or have not been involved in: suspensions, convictions, indictments, conflicts of interest, or terminations for cause. We found that contracts have signed statements, however, we did not identify evidence indicating independent verification of these statements.

### **Criteria**

The City's standard solicitations require the contractors to sign an Affidavit of Representations and Disclosures that includes the following representations:

- No Lobbying
- Disclosures of Conflict of Interests
- No Solicitations
- Ethics Disclosures
- Convicted Vendor List Representations
- Discriminatory Vendor List Representations

### **Cause**

Procurement management advised that it does not have the resources to screen all selected contractors, though they do perform some verifications. Further, if they are made aware of information that puts the City at risk, action will be taken to address the situation.

### **Effect**

Without screening contractors, the City may enter into contracts that expose it to operational, financial, and reputational risk. Further, this may erode the premises of transparency, accountability, and equitable treatment of all parties that the Procurement Code was built upon.

### **Recommendation 7**

We recommend that the Procurement Department:

- Evaluate software capable of screening contractors and determine whether it would be cost effective to implement it, and
- In the absence of software, conduct and document independent verifications of selected contractors, prior to awarding the contract (i.e. verify that the contractor is not on the convicted vendor or discriminatory vendor list, and does not have any conflicts of interest).

### **Management Response 7**

The Procurement Department will evaluate software capable of screening contractors, however, this would be contingent upon obtaining funding to purchase such a system. In addition, Procurement currently verifies that selected contractors are not listed on the State convicted vendor list or the discriminatory vendor list. For certain significant

contracts, Procurement staff perform additional due diligence. However, additional staffing would be necessary in order to perform individual independent verifications of all selected contractors.

**Target Implementation Date:**

- Implemented (Independent Verifications)
- When Funded (Contractor Screening Software)

## **8. Evaluating Vendor Performance**

### **Condition**

We found that the Consultant Performance Evaluation Form is only required to be completed periodically by the Project Managers within Engineering, IT, Legal, Procurement, and Risk Management even though other departments use consultants. In addition, we found that there were departments that utilized the services of consultants but were unaware of the existence of the evaluation form. Currently, the evaluation form is only being utilized by the IT, Public Utilities, and Engineering Departments.

### **Criteria**

A Consultant Performance Evaluation Form was developed by a cross-functional team with members from Engineering, IT, Legal, Procurement and Risk Management. Based on established evaluation criteria, the goal of the performance evaluation form was to periodically assess the consultants' performance and ensure that services were provided in accordance with the contract specifications throughout the contract term. The form is required to be completed by the contract's Project Manager and reviewed by the Department Director for concurrence.

### **Cause**

The use of the Consultant Performance Evaluation Form was initially developed around 2014 as a pilot program to evaluate contractors for the IT, Public Utilities, and Engineering Departments. The document was facilitated by Procurement, with the intent to introduce it to all other departments thereafter. However, plans to introduce it to other departments that utilize consultants did not materialize.

### **Effect**

Evaluating vendor performance is necessary to assess whether the City received the value for its money. Evaluations may disclose information such as vendor performance, standard of work, delays, or budget overruns. It is the responsibility of each Department's Project Manager to take the necessary steps to ensure that services are delivered in accordance with contractual requirements and to provide information on vendor performance.

### **Recommendation 8**

The Procurement Department should continue its efforts to ensure sufficient monitoring of vendor performance by:

- Establishing written procedures that require all departments to complete periodic vendor performance evaluations; this should include evaluations from all departments that utilized the vendor,
- Creating a standardized template with evaluation criteria,
- Developing a database to store and report the results of the evaluations, and
- Reviewing the established database prior to issuing contracts to determine if there were any concerns with the vendor on previous contracts.

### **Management Response 8**

Procurement will develop written procedures to require all departments to complete vendor performance evaluations. In addition, Procurement is currently in the process of revising the template for review of Engineering consulting services and will create standard templates with evaluation criteria. Furthermore, since performance is an evaluation factor under the Procurement code, Procurement will establish a database to store evaluation reports and review this database prior to issuing contracts to determine if there were any concern with the vendor's performance on a previous contract.

#### **Target Implementation Date:**

- Implemented (Requiring Departments to Complete Evaluations)
- October 2020 (Revision of the Evaluation Template)
- December 2020 (Review of Contractor Prior Performance)