



20 E Main St Suite 180
PO Box 1466
Mesa, Arizona 85211-1466

Date: June 17, 2009

To: Audit and Finance Committee

From: Gary Ray, City Auditor

A handwritten signature in black ink, appearing to be the initials "GR" or "AR" in a cursive style.

Subject: ITD Contract Monitoring Process

Cc: Alex Deshuk, Manager of Technology and Innovation
Diane Gardner, Assistant Chief Information Officer
Stacey Knudtson, IT Services Leader
Jennifer Means, IT Budget Coordinator
Regan Robbins, IT Purchasing & Contract Coordinator
Chris Maher, IT Purchasing & Contract Coordinator
Pam Tyson, IT Procurement Coordinator

Pursuant to the Council-approved audit plan the City Auditor's Office has completed an audit of the Information Technology Department Contract Monitoring Process.

The purpose of this letter is to transmit the report to the Audit and Finance Committee. The report package consists of the report, two Corrective Action Plans (CAPs), and the Management Response.

We would like to thank ITD management and staff for their cooperation, professionalism, and assistance throughout the audit process.

If you have any questions please feel free to contact me at x3210 or Jerry Faccone at x2403.

AUDIT REPORT

Department: Information Technology Department (ITD)

Audit Subject: ITD Contract Monitoring Process

Date Completed: May 12, 2009

Report Date: May 19, 2009

Audit Period: November 2003 – February 2009

Purpose: The objectives of the audit were to:

- Determine the adequacy of policies, procedures and controls over the ITD Contract Monitoring Process.
- Determine if ITD has an adequate database for the management of contracts.
- Determine if the monitoring of contracts is being performed according to policy.
- Determine if the monitoring of contracts is properly documented.

Scope: To accomplish this audit we:

- Reviewed ITD's Contract Monitoring workflow process and applicable internal policies and procedures.
- Compared ITD's Contract Monitoring Process to the standards set in the Citywide Contract and Grant Monitoring Procedure.
- Made inquiries and performed procedures to gain assurance that all active agreements are included in ITD's database of contracts.
- Performed detailed testing to determine if the monitoring of contracts is being performed and documented according to the approved standards of ITD and the City of Mesa.

Background: The Information Technology Department is involved in many projects Citywide that involve the services of contractors. The Department makes use of a master agreement, that has been approved by the City Attorney's Office, for major contracts with multiple sections to cover all required contractual areas including contract documents, scope of work, consideration and payment, project management, change orders, acceptance testing, confidentiality, applicable laws, insurance, licensing, default, termination, warranties, etc.

ITD's master agreements include the Transportation Computerized Maintenance Management System contract with Motorola Inc., in the amount of \$628,107.52, and the Fuel Management System contract with Multiforce Systems Corporation amounting to \$366,940.93.

The City has established standard principles and practices for managing and monitoring contracts. The purpose of monitoring contracts is to effectively manage the risks associated with engaging a second party to deliver goods and services either to, or on behalf of the City. The goal is to improve outcomes and mitigate potential problems through oversight of the activities and obligations of each party to the contract.

The process of monitoring begins when a contract has been fully executed and has been implemented within the Department. The process ends when all deliverables under the contract have been received and all terms and conditions have been fulfilled.

Comments: The audit resulted in two findings that are detailed in the attached Corrective Action Plans along with recommendations for improvement.

Conclusion: Overall, the ITD Contract Monitoring Process is operating effectively. A listing of active contracts is maintained, enabling proper management of the Department's agreements. Adequate policies and procedures are in place to mitigate risk in the preparation and approval of contracts, and to effectively monitor and document agreements in regard to timelines, deliverables, reporting requirements, fiscal management, and other compliance steps necessary for successful contract performance and completion.

Corrective Action Plan #1

Audit Subject: ITD Contract Monitoring Process

May 19, 2009

Title: Master File Documentation

Observations: ITD contract files did not include all key documentation.

Comments: The Master File is where all key documentation for a contract is maintained. The majority of contract documentation for the ITD contracts tested was properly stored in the Master Files.

The fulfilling of some ITD contract requirements involves assistance from other City departments, specifically, Purchasing for the Request for Proposal (RFP) process and preparation of purchase orders, the City Attorney's Office for contract review and approval, the Police Department for contractor background checks and access clearances, and Accounting for the payment of contract billings. These departments properly retained the documentation for their areas of responsibility, but some of this information was not stored in ITD records. By retaining all documentation relating to a contract in one place, the monitoring history of a contract can be evaluated more effectively and the retrieval of specific information can be accomplished quickly and efficiently.

Recommendations: ITD staff should ensure that contract Master Files include all key documentation. Master Files should include copies of purchase orders and approved payment invoices, documentation on contract review by the City Attorney's Office, and a record of the contractor background checks and access clearances performed by the Police Department.

Corrective Action Plan #2
Audit Subject: ITD Contract Monitoring Process

May 19, 2009

Title: Certificates of Insurance

Observations: Certificates of insurance were not obtained on a contract.

Comments: The majority of contracts include a clause addressing insurance requirements. A contract tested in the audit included a requirement that prior to the commencing of services under the agreement, the contractor should furnish the City with Certificates of Insurance, issued by the contractor's insurer, as evidence that policies providing the coverages and limits required by the agreement were in full force. Certificates of Insurance were not obtained on the contract.

The receipt of the Certificates of Insurance by the City is necessary as proof that the insurance is actually in force. If the contractor is not carrying the workers' compensation and commercial general liability coverages as required, the City could be exposed to potential legal liability.

Recommendations: To protect the City from potential liability, the Certificates of Insurance should be procured prior to the commencing of work under a contract.



To: Christopher Brady, City Manager CAB
From: Alex Deshuk AD
Date: June 16, 2009
Subject: ITD Contract Monitoring Process Audit
Cc: Gary Ray, City Auditor
Diane Gardner, Assistant Chief Information Officer

ITD appreciates the work done on this audit, as well as your comments and recommendations. We also wish to convey our appreciation of the professionalism and courtesy demonstrated by Jerry Faccone, in his audit of our contract monitoring processes. ITD will work with your office to ensure recommended actions are implemented.

Please see below for changes ITD will make in response to recommendations:

- 1. Recommendation #1.** ITD staff should ensure that contract Master Files include all key documentation. Master Files should include copies of purchase orders and approved payment invoices, documentation on contract review by the City Attorney's Office, and a record of the contractor background checks and access clearances performed by the Police Department.

Response: ITD will develop a checklist of the elements to ensure all required items are included or referenced in each contract Master File. The checklist will be stored in the Master File and updated at each relevant point in the contract development process to assure that all necessary items are included or referenced in the Master File.

However, we believe providing a direct reference to the original source (such as background clearance originals stored at PD) is preferred over scanning and storing duplicate copies of original documents in separate files across the City. With the City's direction toward automation and a contracts repository, scanning and storing copies would only magnify that duplication.

The review process will be easier after ITD's and other department's migration to the contracts document management system. Relevant links to the scanned original will be available and more easily reviewed by those with appropriate access.

- 2. Recommendation #2.** To protect the City from potential liability, the Certificates of Insurance should be procured prior to the commencing of work under a contract.

Response: ITD's current practice is to obtain insurance certificates prior to commencement of services. The above-referenced checklist will ensure this requirement is not inadvertently overlooked.