



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Procurement/Compliance

CM: Todd Hileman

DATE: April 10, 2018

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding the contract administration audit findings and recommendations from Crawford and Associates, P.C.

BACKGROUND

On October 10, 2017, the Internal City Auditor provided an Audit Plan Report to City Council that identified contract administration as one of the top 5 risks for the City. The plan stated contract administration processes needed to be evaluated to determine if accountability was in place. The Internal Auditor resigned later the same month, prior to beginning the contract audit.

On December 5, 2017, Crawford and Associates, P.C. was approved by Council for internal audit services related to contract administration (Ordinance 2017-383, Exhibit 2). The outside firm was contracted to perform the audit during the absence of an Internal City Auditor due to the potential level of risk identified in the Audit Plan Report. The professional services were scheduled to be completed within the first quarter of 2018.

The Professional Services Agreement Council approved contracted Crawford and Associates to review policies and procedures for:

- the assignment of the responsibility of authorizing contracts and monitoring contract compliance throughout the life of the contract, including robust governance arrangements for contract administration/monitoring;
- monitoring contracts that identify specific responsible parties, including clear departmental officer roles and responsibilities;
- the identification of steps for addressing non-compliant vendors;
- identifying procedures for monitoring performance on service delivery, reported on a regular basis, and also the monitoring of contract expiration dates;
- the establishment of processes for ensuring that contractors are paid in a timely manner and that the financial position of the contract is monitored to help identify any overspend;
- the effectiveness of procedures to assist in ensuring that contract terms and bonding and insurance requirements are met, declining contractor performance is identified at an early enough stage to be dealt with properly in line with contractual requirements, contract close-out activities are completed, and contract monitoring activities and deliverables are documented; and
- any other policies and procedures related to effective contract administration.

On January 4, 2018, Crawford and Associates conducted on-site kickoff meetings with City staff from Finance, the City Manager's Office, and Procurement and Compliance. In addition to discussing the overall scope of work, Compliance personnel provided information from departmental interviews regarding contract administration and a master list of city-wide contracts. "Contracts" include procurement contracts (goods and services), leases, memorandums of understanding, interlocal agreements, construction contracts, hedging agreements, and other various types of agreements. From the provided list of 868 contracts, Crawford and Associates requested supporting documentation for 62 varying types of agreements, which was provided from Procurement, City Secretary, and/or departmental records.

During the week of January 16-18, 2018, Crawford and Associates conducted additional on-site interviews and research with various City departments.

On March 19, 2018, a final report of contract administration findings and recommendations was provided to City staff (Exhibit 3).

RECOMMENDATION

Crawford and Associates recommends the following improvements be made to the City's contract administration:

1. Develop formal policies concerning overall contract management (roles and responsibilities, binding authority, recordkeeping, and contract templates).
2. Develop formal policies regarding federal awards to ensure compliance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements.
3. Review current written policies to ensure compliance with Uniform Guidance requirements outlined in 2 CFR 200.317-.326.
4. Implement a routine training program for City employees who work with contracts and grants.
5. Implement a review process to ensure Council approved contracts are executed for the same amounts.
6. Implement a routine review of the contract administration process of all City departments to ensure best practices of proper documentation, monitoring, and compliance.
7. Implement a system for tracking all City contracts.
8. Implement a formal process for the Legal department to timely notify other appropriate City departments when a contract needs to be updated with new legal language.

City Management agrees with the reported findings and acknowledges there have been deficiencies in the contract administration process.

ESTIMATED SCHEDULE OF PROJECT

The City is working to improve contract management processes and procedures. Below is a listing and schedule of current and upcoming initiatives to address the recommendations:

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| • Implementation of contract management software | Spring 2018 |
| • Annual contract reviews by Compliance | Spring 2018 |
| • Adoption of contract administration policies and procedures | Summer 2018 |
| • Materials Management and Payment Procedures Manual update | Fall 2018 |
| • Adoption of grant and federal funding policies and procedures | Winter 2018 |
| • Contract and grant training program for City staff | Spring 2019 |

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

On December 5, 2017, Crawford and Associates, P.C. was approved by Council for internal audit services related to contract administration (Ordinance 2017-383, Exhibit 2).

FISCAL INFORMATION

Crawford and Associates was contracted for an amount not to exceed \$40,000, including travel and incidental costs. These expenses will be funded from Internal Audit Administration account 105001.7854 in the General Fund.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Organizational Excellence

Related Goal: 1.1 Manage financial resources in a responsible manner

EXHIBITS

Exhibit 1: Agenda Information Sheet

Exhibit 2: Ordinance 2017-383 – Crawford and Associates PSA

Exhibit 3: Crawford and Associates Audit Report

Exhibit 4: Presentation

Respectfully submitted:

Cassey Ogden

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Prepared by:

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