

City of Denton, Texas

Contract Administration Review

Scope

- ▶ Contract Administration:

- Area was included on the previous internal auditor's internal audit plan

- ▶ Objective:

- Obtain information and review records to determine whether any recommendations are warranted regarding the design of established internal control policies and procedures regarding contract administration, if any.

Introduction

- ▶ Approximately 868 contracts accounted for on the master list received
 - Types:
 - Procurement – goods and/or services
 - Leases and other debts
 - Memorandums of understanding
 - Inter-local agreements
 - Hedging agreements
 - Range:
 - \$0 for memorandums of understanding
 - \$13,000,000 for capital appreciation bonds

Procedures Performed

- ▶ Obtained the City's "Materials Management and Payment Procedures Manual"
 - Reviewed the following specific chapters
 - Chapter 2 Section 4 - Formal Contracts
 - Chapter 2 Section 6 - Signature Authorization
 - Chapter 2 Section 8 - Purchasing Authority Thresholds
 - Chapter 11 Section 1 - Term Contract Purchases
 - Outside of the policies and procedures noted above for procurement-type contracts, there were no other current or consistent City-wide policies or procedures regarding contracts or grants

Procedures Performed

- ▶ Conducted interviews with the Deputy City Manager and Finance Director
- ▶ Conducted on-site interviews with the 9 following City departments to gain an understanding of the types of contracts entered into as well as the procedures involved in the contract administration process.
 - Legal
 - Purchasing
 - Real Estate
 - Police
 - Fleet
 - Planning
 - Materials Management
 - Economic Development
 - Compliance

Procedures Performed

- ▶ Reviewed notes from previous interviews conducted by the City's compliance department regarding contract administration for the following 15 City departments:

- Electric
- Airport
- Water
- Library
- Parks
- Finance
- Fire
- Street
- Court
- Solid Waste
- Facilities
- Wastewater
- Human Resources
- Tech Services
- Customer Service

Procedures Performed

- ▶ Selected a sample of 62 contracts from the 868 contracts on the master list and test for the following:
 - Proper authorization
 - Approval by Legal department
 - Proper documentation of monitoring of City's responsibilities
 - Proper documentation of monitoring of vendor's responsibilities
- ▶ Our sample included one contract from each City department listed on the master list
- ▶ Sample stratified amongst the different types of contracts listed

Observations

- ▶ No centralized framework for City-wide or department level policies and procedures regarding contract administration or grants, beside the City's Materials Management and Payment Procedures Manual that defines the purchasing authority for procurement contracts, but does not address non-procurement contracts
- ▶ No evidence of a formal review or documentation process to verify that monitoring of the specific terms of the contract is being performed

Observations

- ▶ NAPA contract was approved by Ordinance 2016-172 for \$3 million per year for 3 years for a total not-to-exceed of \$9 million, however the actual contract was executed for \$4 million per year for 3 years for a total not-to-exceed of \$12 million.
- ▶ Dustrol, Inc. contract was approved by Ordinance 2015-221 for a not-to-exceed of \$400,000 over 3 years, however the contract was listed on the master list with a not-to-exceed of \$1.3 million and there was approximately \$597,000 of encumbrances approved on the contract.

Recommendations

- ▶ Implement formal policies and procedures regarding overall contract administration including the following:
 - Roles and responsibilities of all employees involved in the contract process
 - Binding authority – including non-procurement contracts
 - Recordkeeping
 - Contract templates
- ▶ Implement formal policies and procedures regarding federal awards in order to ensure compliance with the U.S. Code of Federal Regulations Part 200 including:
 - Cash Management
 - Time and Effort Reporting
 - Allowable Costs
 - Sub-recipient Monitoring

Recommendations

- ▶ Update purchasing policies and procedures to be in compliance with 2 CFR 200.317-326
- ▶ Implement routine training regarding contract administration
- ▶ Implement review process to ensure contracts are executed for the same terms as the respective City Ordinance
- ▶ Implement a routine review of the contract administration processes of all City departments to ensure compliance with policies

Recommendations

- ▶ Implement a system (i.e. software) for tracking all City contracts that includes the following:
 - Start and expiration dates
 - Not-to-exceed amount
 - Specific contractual terms
- ▶ Implement formal process for Legal to notify all departments when contract templates need to be updated

Management Responses

- ▶ Implementation of software – Spring 2018
- ▶ Annual contract review by Compliance Department – Spring 2018
- ▶ Adoption of contract administration policies and procedures – Summer 2018
- ▶ Materials Management and Payment Procedures Manual update– Fall 2018
- ▶ Adoption of grants and federal funding policies and procedures – Winter 2018
- ▶ Contract and grant training program – Spring 2019

Perspective

- ▶ Management concurred with the noted recommendations and provided an implementation timeline for each of the recommendations
- ▶ While it was noted that there are no centralized policies and procedures regarding contract administration it does appear that each of the departments interviewed were performing some level of review and/or monitoring and each of the departments appear to be willing and receptive to implementing new procedures once developed