

# **City-Wide Contracts Review**

**Finance Department**



## **Limited Scope Review**

Audit No. IAD091019-06FD  
March 18, 2020

## **City of Lake Worth Beach Internal Audit Department**

William Brown, CIA, CGAP  
City Internal Auditor

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## Lake Worth Florida. The Art of Florida Living.

Re: Finance Department Contract Audit (2019-IAD091019-06FD)

City Commissioners,

The Internal Audit Department (IAD) conducted a limited scope review of the City's post-award Contracts Process. This audit work was authorized by the City Commission as part of the 2019 Annual Audit Plan. The intended purpose of the contracts review was to provide the City's Contracts Process owner (the Purchasing Division of the Finance Department) with useful input for the implementation of the new Contracts Management Policy and in the utilization of newly purchased contract management software.

The Internal Audit Department selected ten contracts for review. The contracts were selected to provide a range of dollar values and work scope. The focus of the IAD's review was on the post-award, Contract Management Phase of the Contracts Process. Areas of activities reviewed included: a) accessibility of contracts and vendor requirements for use by Contract Managers, b) documentation that the vendor has performed what was contractually required, c) receipt/acceptance of vendor work products, d) acceptability of contract change management, e) documentation of contractor performance, and f) acceptability of contract extensions.

It is the responsibility of management to implement internal controls throughout the contract management process to ensure: a) contract requirements, stipulations, etc. are met, and b) the City's Procurement Code is followed. The Internal Audit Department (IAD) reviewed contracts for the following:

- Accuracy and sufficiency of required reporting
- Security of information processed
- Performance monitoring sufficiency
- Adherence to Procurement Code

**The IAD observed contract control deficiencies** that, if taken in isolation, might be considered relatively low risk; however, **when taken together, the resulting risk becomes significant because it illustrates fundamental breakdowns across the process.** The IAD concludes that for the period reviewed (2016 to 2019), the City's liability and reputational risks increased significantly when: a) contractors performed work prior to receiving authorization, b) approval authorizations were exceeded, c) invoices were approved without verification, d) Service Level Agreements were not in place, and e) when the level of cyber-security and information systems at certain contractors was not documented nor verified.

Sincerely,

*William Brown*

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## Table of Contents

|      |  |    |
|------|--|----|
| I.   | Background _____                                     | 1  |
| II.  | Objective & Scope _____                              | 2  |
| III. | Methodology _____                                    | 3  |
| IV.  | Summary Conclusion _____                             | 4  |
| V.   | Observations and Recommendations _____               | 5  |
| VI.  | Appendix _____                                       | 20 |
|      | A. Finance Department Management Response (Complete) |    |
|      | B. Past Audits of City Contracts                     |    |
|      | C. Example of Inventory Reconciliation Forms         |    |
|      | D. Correspondence from City Resources                |    |
|      | E. Florida Records Retention Statute                 |    |



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## *Background*

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The Internal Audit Department (IAD) contributes to the success of the City by providing independent analyses, assessments, and evaluations of the internal controls used by management to promote honest, efficient, effective, and fully accountable city government. The IAD conducted a limited-scope review of the City's contracts management process (post award) to provide the Procurement Division of the Finance Department with input related to the division's implementation of: a) new Policy & Procedures and b) contract management software. The audit work was performed as part of the 2019 Annual Audit Plan.

### Contract Management Policy; Contract Management Software

In November 2019, the Purchasing Division of the Finance Department purchased the **contract management software: Bids & Tenders / eSolutions**. The software will facilitate training, and ensure consistency in contract management (monitoring, evaluation and reporting). The Bids & Tenders software will provide a structured, organized, central repository of City contracts and related information. Among other pertinent areas, the new Contract Management Policy provides guidance on:

- a) Contract monitoring & vendor oversight,
- b) Responsibilities of a "contract liaison" at each City department, and
- c) Responsibilities of the Procurement staff to perform a review of department contract files.

Information contained within this report is designed **to provide insight** into the condition found during the period reviewed, and to **provide foresight** into how the newly adopted Contract Management Policy and the new Bids & Tenders software can be used to address the deficiencies observed.

### Internal Controls Statement

Ideally, internal controls<sup>1</sup> work to assure: a) the reliability and integrity of information, b) compliance with Policy and Procedures, and laws, c) the safeguarding of assets, and d) the efficient use of resources. Internal controls prevent and/or detect situations that cause risk for the City (theft, fraud, employee errors). Internal Audit Department recommendations are intended to improve the internal controls of the Contract Management Process (post award).

### City Department Management

Management is responsible for implementing internal controls. It is the responsibility of Department Management to implement internal controls designed to ensure the accuracy and appropriateness of contractor work, invoices, and over-all performance. Management should strive to create and implement internal controls, including designating a "contract manager / liaison" designed to assure the following:

- a) Contractors meet all required meeting schedules, contract milestones, reporting, etc.
- b) Contractors perform, process, deliver what is contracted - at the prices specified in the contract
- c) Effective contract oversight, ensuring vendor accountability, is documented

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<sup>1</sup> Examples of internal controls: policy and procedure, segregation-of-duties, exception reporting, process monitoring, and management information systems (data field access and logic controls).



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## Objectives & Scope

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The Internal Audit Department (IAD) met with management of the Finance Department to discuss the ongoing initiatives to strengthen the City's Contract Management Process. The objectives of the IAD's audit work were formulated following those discussions. Given the deficiencies exposed in past audits (most notably by the Palm Beach County Office of Inspector General – see this report's Appendix), and the recent initiatives to address those deficiencies, the IAD formulated objectives designed to provide information that would be beneficial to the Finance Department, specifically the Purchasing Division, as they moved forward with new Policy & Procedures, and contract management software.

**Objective 1:** To determine if the contract's required reporting and activity documentation is accurate and sufficient,

**Objective 2:** To determine if the selected contractor's access to City systems and citizen information is properly safeguarded,

**Objective 3:** To determine if the performance of selected contractors is sufficiently monitored.

The review covered the calendar periods from 2016 through 2019. The review period was determined to in order to provide a sufficient variety of contracts so that each objective could be achieved. Contracts selected for review included those from the following four City departments: 1) Community Sustainability, 2) Public Services, 3) Water Utility, and 4) Electric Utility Customer Service.

Table 1: Department Contracts Selected for Review

| Community Sustainability Department Contracts             | Public Services Department Contracts         | Water Utility Department Contracts              | Electric Utility Department Customer Service Contracts |
|---|--|---|--|
| Accounts Receivable Inc (Collection Agency)               | Paving Lady (Paving Services)                | Allied Universal (Water Chemical Supplier)      | On-Line Information (Collection Agency)                |
| Community Champions – ProChamps (Vacant Lot Registration) | Community Asphalt Paving Materials Supplier) | Craig A Smith (Engineering Services Consultant) | ENCO (Customer Service Call Center)                    |
|   | GT Supplies (Fleet Parts Supplier)           |   |  |
|   | Burck Oil (Parts Supply / Repair Services)   |   |  |

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## *Methodology*

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Contract areas chosen for review included: quality control (contractor and contract manager activities), receipt/acceptance of goods and services, contract change management, contractor performance, etc. A judgmental sample of contracts were selected for review. The contracts ranged in value from \$14,000 to over \$310,000 per year. Contracts were selected from four departments (Departments: Public Services, Community Sustainability, Water Utility, and Electric Utility). Each Department identified the contract manager (or “contract liaison” in the vernacular of the City’s new Contract Management Policy).

The contract manager (or “contract liaison”) for each of the selected contracts completed a Preliminary Survey, and then the IAD held interviews with the contract managers and staff associated with various parts of the contract process. City departments supplied requested documentary evidence pertinent to accomplishing the objectives of the review. Survey and interview results were compared with the documentary evidence for consistency and accuracy.

The following elements of each contract that were identified and used in the survey, interview, and document review:

- Contractor name, contract description
- Staff that are assigned to monitor the contractor
- Contract milestones (per the contract document)
- Staff that confirm receipt of deliverables
- Staff that confirm contract milestones are achieved
- Staff that approve payments to contractors
- Contract documentation (receiving documents, invoices, and check registers)
- Contract file - log of payments
- Change orders and/or contract amendment documentation

Contract Manager Interview Topics:

- Policy/procedure/practices for contract monitoring
- Contract monitoring tools and templates
- Contract management documentation for each contract
- Contract risk assessment and management

Responses to the areas outlined above were evaluated based on contract risk elements such as:

- The prevalence of: a) missed contract deadlines, b) failure to submit an accurate invoice (ie. with supporting documentation, or “on time”), or c) a high number of change requests
- Continued contract relationships with contractors that have had a history of financial, administrative, or program deficiencies
- Third-party vendor contracts conducting e-commerce or utilizing information systems on the vendor’s servers.

Based on observations to the above methodology, the IAD then developed conclusions and recommendations.

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## Summary Conclusion

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The Internal Audit Department (IAD) strives to assure management that internal controls are in place, and functioning, as Department management intends; or conversely, to identify where internal controls are not working as management has intended. For the most part, the IAD found that *payments to* contractors were accurate, *payments from* contractors were accurate; invoices were accurate and verified by departments; extensions to contracts were properly authorized; and the requirements stipulated in contracts were met. However, the following deficiencies *were* observed:

### Contractors perform unauthorized work

- In 2019, two different contractors working in two different City departments performed additional work (work outside the scope of the contract) prior to a change order being authorized by the City Commission and/or City Manager.

### Contractor invoiced the City for work that was not performed, and the City paid

- In 2019, one contractor invoiced \$943 of work that was not actually performed. The contractor is issuing the City a credit for the amount.

### City Manager's Office exceeded approval authority

- In 2019, the City Manager's Office authorized two contract change orders that exceeded Office authority by \$4,450.

### Contractor Systems Security is not Documented, nor Verified

- The City has not documented and verified the cyber-security and information security for companies contracted to process payments and citizen information on behalf of the City.

**The Internal Audit Department (IAD) concludes** that the observed deficiencies can be attributed to the following: a) contract management is not consistently implemented from department to department, b) contract management is not consistently performed within some departments, and c) the City has not adequately recognized the risks associated with 3<sup>rd</sup> party vendors that perform e-commerce and process citizen information on behalf of the City.

The new Contract Management Policy addresses many of the deficiencies listed above, namely:

- "City's contract provisions and vendor oversight (must be) sufficient to hold vendors accountable for delivery of a quality goods and services"
- Responsibility of the "contract liaison" at the departments is to "monitor progress and performance and ensure (vendor deliverables per the contract)...(to) authorize payments...(and) to maintain appropriate performance records"
- "Contract provisions are sufficient to hold vendors accountable for delivery of quality services and prevent the inappropriate or inefficient use of public funds"

The Purchasing Division's new Contract Management Policy lists specific best practices – ideally to be implemented in a consistent format from department to department. The Internal Audit Department recommends that **a training program be developed utilizing the observations of this report, and providing examples from actual contracts** for each point listed in the new policy. **One way to establish**

**consistent contract management is to implement templates, checklists, flowcharts, etc. as part of a “contract management folder”** - establishing what information to take from the contract to include in the folder provides each department’s contract liaison with the resources to be in compliance with the new Policy, and to successfully manage contracts.

Likewise, the new Policy establishes requirements for the Procurement Division, training in this area should be accomplished as well. Like many critical processes in the City, multiple departments must work together and integrate policy and procedures.

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## ***Observations and Recommendations***

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### **1. Contract: Paving Lady (Paving Services)**

#### General Condition

The Internal Audit Department observed that the **contract owner, Public Services Department**, successfully manages the contract in the following areas:

- The Project Manager accurately tracks the progress of the contractor utilizing a handwritten Project Log (and then discusses project status with department management), allowing the Department to monitor milestones, ✓
- Monthly meetings specified as “required” in the contract appear to be informal discussions between Project Manager, Contractor, and Department Management. As such, documentation of subject matter discussed, and the direction provided by the department, is not formally documented.

#### Contractor invoiced the City for work that was not performed, and the City paid

##### **IAD Observation: Inaccurate Invoice results in over-payment.**

The Internal Audit Department (IAD) observed one instance where the **contract owner, Public Services Department**, did not verify the accuracy of the contractor’s invoice (the contractor over-billed the City \$943 on an August 14, 2019 invoice). The department approved the invoice for payment, and the City paid the invoice. The over-payment stood until exposed by the IAD during this audit work. To the department’s credit, and that of the vendor, once the overpayment was identified by the IAD, the department requested, and the contractor has agreed to credit the overpaid amount on a future invoice (anticipated for June 2020).

## Contractor performs unauthorized work

### **IAD Observation: Contractor Work is performed prior to City Commission approval of a change order.**

The IAD observed one instance where the contractor and the department agreed to a change order (amendment) to the original contract; however *the additional work was performed, and \$14,601 was invoiced by the contractor, 31 days prior to the change order being officially authorized by the City Commission* - as is required by the City's Procurement Code. It should be noted that the City did not pay the invoice until after the City Commission approved the contract amendment – the vendor received payment almost two months after the work was performed.

The IAD informed the department of this occurrence, and the **Public Services** department responded:

“The second amendment was for the additional work performed (added quantities of concrete, curbing, demo) work associated with the original Work Order 1. The contractor had performed additional work as required to make sure ADA grades and slopes were correct which were above and beyond the original WO1. The contractor was notified that the added work was at their risk but they decided to perform it anyways as they were already on-site with equipment and manpower. We then took that extra work authorization to commission for approval of the dollars (not performance of the work per se). So if the commission did not approve it, the contractor would've been held responsible for the costs incurred for the extra work.”

The IAD relayed the scenario to the **City Attorney**, who responded:

“Ideally, work is not performed unless the appropriate City approvals are accomplished – including a fully executed contract, change order or amendment... the City's standard contract with contractors contains a provision that all changes to the contract require an amendment or other *written*, fully executed document to change the contract. This would include any change in the work from the original scope of work... The Contractor should always be advised (*ideally in writing*) that it is doing additional work at its own risk.”

## Cause

The apparent cause of the two deficiencies noted in the General Condition section above is as follows:

- A lapse of internal controls to assure that: what is invoiced, equals what was contracted, equals what was actually provided,
- A lapse of internal controls to assure that contract changes are performed only after proper authorization.

## Effect

When the department does not monitor the accuracy of invoices, the risk increases that if contractor fraud or errors occur, the City will pay erroneous invoices. When the City does not institute City-wide controls (policy, procedure, practices), the likelihood that this observation will repeat on a city-wide basis increases.

When the department allows a contractor to perform work prior to the City Commission (or, in some cases City Manager) authorizing the work<sup>2</sup> then the risk for: a) contractor disputes increases (if the work is not authorized), b) City liability may also increase (if the contractor injures themselves or others while performing unauthorized work on behalf of the City).

When the City does not institute City-wide controls (policy, procedure, practices), the likelihood of these observations repeating on a city-wide basis increases.

### **Recommendation 1**

The IAD makes the following recommendations:

- The contract owner department should develop internal controls ensuring the accuracy of all invoices.
- The contract owner department should develop internal controls to prevent contractors from performing work until it is properly authorized, per City Procurement Code.

### **Finance Department Management Response**

FSD agrees with IAD's recommendation.

- FSD will work in development of training program for departments in receiving process. The training program will focus on training in clearly defining receiving of the goods and services vs. invoices as submitted by the Vendors.

Estimated Completion: September 30, 2021

- FSD will work in development of training program for departments in correct change order/contract amendment process. FSD will also work with Departments to expedite the Amendment/Change Order processing to allow for quicker turnaround of documents.

Estimated Completion:

- Training September 30, 2021,
- Expediting documents processing July 31, 2020 with full implementation of electronic signature process

## **2. Contract: **Craig A Smith** (Engineering Services)**

### **General Condition**

The Internal Audit Department observed that the **contract owner, Water Utilities Department**, successfully manages the contract in the following areas:

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<sup>2</sup> Non-contracted work is when a contractor performs work without proper authorization to do so, for example: work associated with an amendment, or change order to a contract, prior to proper authorization.

- Total payments to the contractor are accurate in so far as the invoiced services are for the contracted amounts, ✓
- Progress reports are provided by the contractor (incorporated into the invoicing document), allowing the Department to monitor milestones, and ✓
- Monthly meetings specified in the contract appear to take place, albeit in an informal manner, with the only evidence of these meetings being drawing notations made by City staff during these meetings. ✓

### City Manager's Office Exceeded Approval Authority

#### **IAD Observation: City Manager Office approval authorization limit exceeded.**

The IAD found that during fiscal 2019 the original cost of the Craig A Smith Task Order was increased twice (via change order: amended scope & compensation).

- The first increase was for \$12,000, authorized by the Assistant City Manager (October 30, 2018), then later in the fiscal year, a second increase for \$17,450 was authorized by the City Manager (February 19, 2019).
- The total increase of \$29,450 authorized by the City Manager's Office exceeded the then in-effect authorization limit of \$25,000.

The second increase of \$17,450 should have gone to the City Commission for authorization. **Any internal controls in place at the requesting department (Water Utilities Department), or at the Finance Department (Purchasing Division), or at the City Manager's Office, to prevent this occurrence, did not function to do so.**

### Contractor performs unauthorized work

#### **IAD Observation: Contractor performed work prior to the work being authorized.**

The IAD found that during fiscal 2019 the original Craig A Smith Task Order was increased twice (change order / amended scope & compensation).

- *Based on a review of contractor invoices, the task item related to the first increase for \$12,000, authorized by the Assistant City Manager on Oct. 30, 2018, appears to have been performed prior to the authorization.*
- The task item related to the second increase of \$17,450, authorized by the City Manager on February 19, 2019 appears to have work performed during February 2019 – the invoice reviewed indicated the work was performed in February.

### Cause

The apparent cause of the two deficiencies noted in the Condition section above is as follows:

- A lapse of internal controls to assure that: the proper authorizing body (City Manager vs. City Commission) approves contract changes, as defined by the City's Procurement Code.

- A lapse of internal controls to assure that contract changes are performed only after proper authorization.

### Effect

When the contract owner department does not track the amount of changes orders for each contract, it runs the risk of submitting the change order to the incorrect approving authority; when the City Manager's Office does not verify that they are the correct authorizing body, for the amount being requested, they run the risk of approving the change order in excess of their authorizing authority.

When the department allows a contractor to perform work prior to the City Commission (or, in some cases City Manager) authorizing the work<sup>3</sup> then the risk for: a) contractor disputes increases (if the work is not authorized), b) City liability may also increase (if the contractor injures themselves or others while performing unauthorized work on behalf of the City).

When the City does not institute City-wide controls (policy, procedure, practices), the likelihood of these observations repeating on a city-wide basis increases.

### **Recommendation 2**

The IAD makes the following recommendations:

- The contract owner department should develop internal controls ensuring that contract change orders are submitted to the proper authorizing body, per City Procurement Code.
- The contract owner department should develop internal controls to prevent contractors from performing work until it is properly authorized, per City Procurement Code.

### **Finance Department Management Response**

FSD agrees with IAD's recommendation.

- FSD developed new Contracts management process where all change orders and task orders are routed through Procurement Division. Procurement division reviews all submittals and verifies the documents have required authorization prior to routing them for execution. Procurement Division will continue to review and verify proper authorizations are in place.

*Estimated Completion: Already implemented October 2019.*

- FSD will work in development of training program for departments in correct change order/contract amendment process. FSD will also work with Departments to expedite the Amendment/Change Order processing to allow for quicker turnaround of documents.

*Estimated Completion:*

- *Training September 2021*
- *Expediting documents processing July 2020 with full implementation of electronic signature process.*

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<sup>3</sup> Non-contracted work is when a contractor performs work without proper authorization to do so, for example: work associated with an amendment, or change order to a contract, prior to proper authorization.



### 3. Contract: **Community Champions (ProChamps)**

#### General Condition

The Internal Audit Department observed that the **contract owner, Community Sustainability Department**, has contracted somewhat differently than other similar “percentage of fees collected” contracts in the City. With ProChamps, the contractor collects vacant lot registration fees on behalf of the City, *then instead of remitting the fee to the City and invoicing the City for their service, ProChamps keeps their contracted share of the registration fee, and remits the balance to the City.*

#### Revenues remitted to the department are not verified

**IAD Observation: The Department cannot easily verify the accuracy of remitted revenues.**

In the described scenario, coupled with limited transactional reporting, it is extremely difficult for the department to verify the accuracy of the fees remitted by the contractor. There is *no transparency from the vendor as to what they have actually collected* – the City must take the word of the contractor that the amount of revenue submitted via check is accurate. This contractor could be honest as the day is long, but people and systems still make mistakes, without a reconciliation of the registration activity to the amount of revenue remitted, the department will never know whether the revenue is accurate or not.

The department does not actively monitor/track/verify the ProChamps registrations database, for example: a) number of properties residing in the dB at the start of the month, b) number of properties removed from the dB this month, c) number of properties added to the dB this month, d) number of properties in the dB at the end of the month, e) corresponding registration revenue, f) registration revenue remitted to the City, and then a simple reconciliation. Without performing, essentially an inventory control exercise, which provides complete transparency (which could be easily performed in an excel spreadsheet if this were an in-house function), **the department cannot easily verify the accuracy of lump sum registration payments remitted by the contractor.**

*If nothing else, this contract demonstrates that there is a lack of consistency in crafting contracts of similar activities and scope (“percentage of fees collected services”).*

The vendor did not provide any detail activity reporting, instead:

- a) The contractor provided access to their website database. A Code Officer could use the access to determine if an individual property was registered. The database was not used to report on the activity of the contractor (monthly activity reporting, for example).
- b) The contractor sent a check to the department; the department deposited the check; the number of properties related to each monthly payment to the City was not verified.

At the time this report was published, the department was renegotiating the contract. The department expressed a desire to require the contractor to generate more meaningful reports. This appears to be an excellent situation for incorporating a **Service Level Agreement (SLA)** into the contract - expressing the City’s requirements for frequency of activity, type of research performed, contact methods, etc.

## Contractor Systems Security is not documented, nor verified

**IAD Observation: Contractor e-commerce and systems security of citizen records was not documented nor verified.**

**Neither the department, nor the City's IT Department, could supply the IAD's request for security systems and citizen Personal Identifiable Information (PII) controls related to the contractors work collecting fees and/or fines.** The department did not respond to the IAD's survey as to whether the department maintained a copy of the vendor's contract and/or any solicitation or Service Level Agreements (SLA) documentation.

The department did not respond as to whether the contract and supporting Exhibits were easily accessible to staff working with the contractor. **The IAD observed that the contract end date caught the department off guard which prompted an "emergency extension" of the contract.**

The City's IT Department has recently instituted significant changes to protect the City's internal systems, including system segmentation, firewall and cyber-attack detection and quarantining capabilities, and enhanced data back-up. These changes concentrate on preventing an external threat from breaching systems inside the City's firewall. *Surrogate systems located at third-party contractors (used to perform services on behalf of the City) have not historically been within the purview of the IT Department.*

### Cause

The apparent cause of the revenue being remitted and accepted without verification by the department is due to the nature of the contract, whereby, the property owner pays the contractor directly and the contractor keeps the entire amount, and merely remits a cumulative monthly check with the City's percentage revenue without linking level of activity to check amount – the department has no visibility of the activity details that resulted in the payment.

It appears the department's key concern is operational and not systems security, being able to access registry information when they needed it, and not contractor accountability.

### Effect

In this particular contract, when the department does not clearly establish service level expectations, several important elements of contract management seem to go by the wayside, such as measuring the actual *performance* of the contractor, for example:

- a) Were they successful in identifying properties that should be on the registry?
- b) Were they successful in contacting and persuading property owners to register?
- c) Were they accurately reporting the levels of activity?
- d) Were they accurately remitting fees to the City?

Without the contract oversight by the department's contract manager, and without requiring the vendor to report meaningful data (data used to measure the success of the contract), the risk of the contractor under reporting (under paying), either by design or through mistake, increases.

Likewise, neither the department nor the City IT Department could supply documentation that the contractor, who utilized citizen's Personal Identifiable Information during collection activities, had secure systems in place, protecting the identity of City citizens.

Operating as an extension the City, contractors should provide evidence of system security, and if applicable, e-commerce safeguards for processing payments. When system security and e-commerce security controls are not documented, and periodically verified, there is an increased reputational and liability risk to the City.

### **Recommendation 3**

The IAD makes the following general recommendations:

- The City should develop a consistent practice in writing contracts where: a) the contractor collects fees or other revenue from an entity, b) the contractor remits the fee collected to the City, c) the contractor invoices the City for its services, d) the City pays the contractor for its “collection” services.
- The City should put into place reporting and other controls to ensure activity transparency with contractors performing activities on behalf of the City.
- The City should implement consistent, standardized policy from solicitation to contract negotiation to contract management to contract performance evaluation whereby “revenue” contracts are managed so that contractor performance and accuracy are assured.

### **Finance Department Management Response**

FSD agrees with IAD’s recommendation.

- FSD will work with the City’s Attorney and departments in developing more robust scope of services during solicitation and contracting process to ensure proper recording and managing of received revenues in the contracts of this type. FSD will assist departments to enforce the current contract scope. New ProChamps contract provides for the access to the web based electronic registry and reports so that Department may verify the revenues as they are provided. FSD has implemented general contractor’s performance review and will assist department to develop similar performance evaluation document for specific revenue contracts.

Estimated Completion:

- Development of scope of services & contract clauses for revenue contract – as each contract and requirement is different, FSD will apply this requirement at first applicable solicitation/contract.
- Reporting access – August 31, 2020
- Performance evaluation document – October 1, 2020

### **Recommendation 4**

For contractors that conduct e-commerce and/or gather and store citizen Personal Identifiable Information (PII) on behalf of the City, require system-security and information safeguarding requirements to be part of the Contracts Process (ideally from the start, it should be part of the bid process), much like when the City contractually requires certain types of insurance for those performing work for the City or on City premises.

The IAD recommends that the City develop system-security and e-commerce security controls for third-party contractors that process citizen payments and other citizen information (PII). Some examples of these types of controls are:

- PCI Compliant Certification - this is an outside source verification of encryption, etc.
- SOC2 Report - this is an outside source verification of contractor controls, etc.
- System Security Documentation, such as firewall documentation, patch maintenance, etc.
- Policy and Procedures related to access control and segregation of duties
- Policy related to records retention, destruction once a file has been processed

#### **Finance Department Management Response**

FSD agrees with IAD recommendation to improve requirements for the Contractor's system security.

- FSD will review IAD's recommendations for specific certifications, policies and procedures and records retention with the City's Attorney. Once review with Attorney is completed, and based on the Attorney's recommendation, standard terms and conditions will be developed and implemented in all applicable contracts going forward.

Estimated Completion: October 30, 2020

#### **4. Contract: Accounts Receivable Inc. (ARI) (Collection Services)**

##### **General Condition**

The Internal Audit Department observed that the **contract owner, Community Sustainability Department**, successfully managed the contract in the following areas: total payments to the contractor are accurate in-so-far as the invoiced services are for the contracted amounts. ✓

Staff and management interviews indicated the department disagreed with the contractor's operating methods. The Department was not comfortable with the contractor's collection methods and/or heavy-handed approach to collections. Based on City check records, it appears the contractor only submitted one invoice prior to the department for all intents and purposes ending the contract. The City's expectation of customer service and collection methods was evidently not clearly understood/followed by the contractor (a Service Level Agreement may have assisted by spelling out the City's expectations).

##### **Contractor Systems Security is not Documented, nor Verified**

**IAD Observation: Contractor security systems for citizen records was not documented nor verified.**

**Neither the department, nor the City's IT Department, could supply the IAD's request for security systems and citizen Personal Identifiable Information (PII) controls related to the contractors work collecting fees and/or fines.**

The City's IT Department has recently instituted significant changes to protect the City's internal systems, including system segmentation, firewall and cyber-attack detection and quarantining capabilities, and

enhanced data back-up. These changes concentrate on preventing an external threat from breaching systems inside the City's firewall. *Surrogate systems located at third-party contractors (used to perform services on behalf of the City) have not historically been within the purview of the IT Department.*

### **Contractor Poor Performance is not Documented**

**IAD Observation:** As noted in the contract “condition” section above, there was an apparent disagreement over methods, tactics, etc. that the contractor used in collection efforts versus the expectations/desires of the department – with these disagreements eventually leading to the contract terminating.

This illustrates the importance of having a formal Service Level Agreement (SLA) that may include “operating parameters” or operating methods, etc. – even if it is a statement establishing “the City shall provide written acceptance of collection practices instituted by the contractor prior to those practices being implemented,” for example.

#### **Cause**

The City has not placed a focus on having the contractor supply documentation of system security when performing e-commerce or processing citizen Personal Identifiable Information (PII) on behalf of the City. Verification of contractor system security has not been a part of contract management.

It appears that contractor methods either were not clearly understood, transfer of files from the department to the contractor was not clearly defined, or the contractor acted in a way not pre-approved by the department.

#### **Effect**

In this particular contract, when the department does not clearly establish the desired methods to use to generate the desired outcome, the effect is that the contractor may perform the contracted service in a way that is incompatible with the City's expectation – which apparently was the case with this contract. Unfavorable customer service (reputational risk) and even liability risk may increase, if the collection practice breaks a law (there was no evidence to suggest this was the case, but it remains a risk when the methods a contractor may use are not clearly defined and approved by the department).

Likewise, neither the department nor the City IT Department could supply documentation that the contractor, who utilized citizen's Personal Identifiable Information (PII) during collection activities, had secure systems in place, protecting the identity of City citizens. Operating as an extension of the City, contractors should provide evidence of system security, and if applicable, e-commerce safeguards for processing payments. When system security and e-commerce security controls are not documented, and periodically verified, there is an increased reputational and liability risk to the City.

### **Recommendation 5 (same as Recommendation and Management Response #4)**

#### **Recommendation 6**

Where applicable, especially where there has been a history of disagreements with the contractor, utilize **Service Level Agreements (SLAs)** as part of the **Solicitation Process** and **development of the contract**, to

clearly communicate to the contractor the requirements/expectations of the City, and to clearly define the criteria the City will use to determine the contractor's performance.

#### **Finance Department Management Response**

FSD agrees with IAD recommendation and has already implemented the process of development of appropriate Scope of Services/SLAs during the solicitation process and contract development.

Estimated Completion: Already implemented in spring 2019 and continues to be applied and improved for each solicitation and contract.

### **5. Contract: On-Line Information Systems (Collection Agency)**

#### **General Condition**

The Internal Audit Department observed that the **contract owner, Electric Utility Department, Customer Service**, successfully manages the contract in the following areas:

- Verifies invoiced charges (invoices are verified), ✓
- Ensures that total payments to the contractor are accurate, ✓
- Follows what is specified in the contract for extending the contract, ✓
- Receives and reviews reports as specified in the contract, ✓
- Has easy access to the contract for use in validating contract requirements. ✓

The IAD observed that the contractor performed collection activities on behalf of the City utilizing the following: a) citizen Personal Identifiable Information (PII) including Social Security numbers, and b) citizen credit card information for utility bill payments. From the department, "Customers can pay Online Collections in-person (all forms of currency and credit cards) at their office, mail or through their online portal. The customer is directed to their website by the validation notice."

#### **Contractor Systems Security was not Documented, nor Verified**

**IAD Observation: Contractor security systems for citizen records was not documented, nor verified.**

The contract owner **did not initially have documentation of the security and safeguards the contractor uses** to control the risk of: a) theft of citizen PII or b) theft of credit card information. Only after the IAD inquired, did the contract owner request, and receive, security documentation from the vendor. The City's IT Department Director was **unaware of any vetting of the contractor in respect to system security, or PCI compliance, etc.**

The contract under review had the following contract sections:

- C. PROCEDURE. 1. Collector prefers to receive all Claims placed for collection by submission of a file to Collector's secure website or secure ftp.

However, neither the contract owner, nor the City's IT Department, could supply the details of the level of security existing on the contractor's website. The information eventually was supplied by the contractor; however this illustrates that the cyber/systems security at the City contractor had not been previously documented/verified.

The City's IT Department has recently instituted significant changes to protect the City's internal systems, including system segmentation, firewall and cyber-attack detection and quarantining capabilities, and enhanced data back-up. These changes concentrate on preventing an external threat from breaching systems inside the City's firewall. *Surrogate systems located at third-party contractors (used to perform services on behalf of the City) have not historically been within the purview of the IT Department.*

### Contract contains "non-standard" clauses

**IAD Observation: The contract contains non-City standard contract clauses related to contractor.**

The contractor utilizes their own database to create a utility customer record. This includes Personal Identifiable Information (PII), likewise the contractor processes various forms of utility payments - collecting and processing this information on behalf of the City. Non-standard contract clauses include the following:

- The contract reviewed by the IAD did not specifically mention **Florida Records Retention** requirements, as do more recent City contracts.
- The contract section specifying insurance requirements simply states: "M. INSURANCE. Collector agrees to carry Liability Insurance." This appears to be a non-standard insurance requirement, not specifying the minimum policy amount that the City requires.

### Cause

By focusing cyber-systems security and information safeguarding solely on data systems under the direct control of the IT Department, the City neglects its responsibility to insist those same protections be in place at contractors operating on behalf of the City. It is simply not prudent to accept a contractor's word, or even contract clause, that suggests adequate cyber-security protections (or insurance protections) exist.

The City's Contract Management Process has not prioritized citizen transaction security at **On-Line Information Systems**. This contractor processes payments utilizing various means; the contractor stores citizen Personal Identifiable Information (PII) on their own servers; the City's Customer Service operation connects to the contractor's system - opening up a two-way line of access<sup>4</sup>. Each of these areas contain risks to cyber-security and to theft of citizen PII.<sup>5</sup>

### Effect

When a contractor maintains its own database of citizen transactional information, and/or conducts transactions between its database and a City database, if the City does not treat the contractor systems

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<sup>4</sup> 2014 Target Data Breach: hackers broke into the retailer's network using login credentials stolen from a heating, ventilation and air conditioning company that does work for Target. A third-party contractor was provided a password to access the Target HVAC system; the password was stolen then used by fraudsters to access Target cash register POS systems.

<sup>5</sup> Determining the exact level of security in effect at the contractor was not within the scope of this review.

as an extension of the City's system – liability risks increase for the City because risks to citizen information increase.

When the City does not incorporate systems security documentation and contractor requirements as part of the Contract Process, it is often left undone, or in this case unchecked until it is being audited.

#### **Recommendation 7 (same as Recommendation and Management Response #4)**

#### **Recommendation 8**

The IAD recommends that standard contract clauses related to insurance requirements, and Florida records retention law be added if and when this contract is renewed.

#### **Finance Department Management Response**

FSD agrees with IAD recommendation and already has a process in place to review and amend the contracts with the standard and new applicable standard clauses during the renewal process.

Estimated Completion: Already implemented.

### **6. Contract: ENCO (Customer Service Call Center)**

#### **General Condition**

The Internal Audit Department observed that the **contract owner, Electric Utility Department, Customer Service**, successfully manages the contract in the following areas:

- Verifies invoiced charges (invoices are verified), ✓
- Ensures that total payments to the contractor are accurate, ✓
- Follows contract specifications when extending the contract, ✓
- Receives and reviews reports as specified in the contract, ✓
- Has easy access to the contract for use in validating contract requirements. ✓

#### **Contractor Systems Security is not Documented, nor Verified**

**IAD Observation:** The department relayed that the contractor, at one point during the contract term, processed Utility billing payments through the City's Naviline system (with **little or no systems security and internal controls documentation from the contractor**). Currently, the contractor performs limited payment processing through another vendor's software (**Paymentus**). Also, another contractor, **Pay-Near-Me** utilizes software/cloud servers which allow City utility bills to be paid at various retail locations. The IAD did not pursue systems security concerns for the Paymentus and Pay-Near-Me contracts, there were no direct observations made for these contractors; however the same systems-security concerns are valid for these two additional contractors.

The Customer Service Manager indicated that ENCO stores customer Personal Identifiable Information (PII) on their company servers / databases. The contract owner **could not verify system security and**



**safeguards existing at the contractor** to control the risk of theft or misuse of citizen PII. The contract owner requested system security information from the contractor; however four weeks later, at the time of this report's publication, only insurance policies had been provided.

The City's IT Department Director was **unaware of any vetting of the contractor in respect to system security or safeguarding of citizen PII.**

The City's IT Department has recently instituted significant changes to protect the City's internal systems, including system segmentation, firewall and cyber-attack detection and quarantining capabilities, and enhanced data back-up. These changes concentrate on preventing an external threat from breaching systems inside the City's firewall. *Surrogate systems located at third-party contractors (used to perform services on behalf of the City) have not historically been within the purview of the IT Department.*

#### Cause

By focusing cyber-systems security and information safeguarding solely on data systems under the direct control of the IT Department, the City neglects its responsibility to insist those same protections be in place at contractors operating on behalf of the City.

The City's Contract Process has not prioritized citizen transaction security. This contractor processes utility payments on behalf of the City, yet the City has not verified what system-security and user controls exist at ENCO. It appears that the City has relied on the contractor being a State authorized vendor, and relies on that entity ensuring the systems security.

#### Effect

A contractor that is given access to the City's Naviline system must be treated the same as if the terminal accessing the City system resided in a Department at City Hall. When a contractor that processes payments on behalf of the City does not have their cyber-security, systems security documented and verified, ideally from an external source, then the City's liability risk increases.

When the City does not incorporate systems security as part of the contract process, it is often left undone, or worse taken for granted.

#### **Recommendation 9 (same as Recommendation and Management Response #4)**

### **7. Contract: Allied Universal, and Odyssey (Water Treatment Chemical Supplier)**

#### General Condition

The Internal Audit Department observed that the **contract owner, Water Utility Department**, successfully manages the contract in the following areas: total payments to the contractor are accurate in-so-far as the price per gallon of chemical was charged at the contracted rate. ✓

For one of two chemical suppliers reviewed by the IAD, the Department's receiving staff was not verifying the amount of gallons received, this makes it difficult to verify accuracy of the amount charged on the contractor's invoice (which specifies amount of gallons delivered x unit cost = invoiced amount (\$)). To

the Contract Manager's credit, when this inconsistency was relayed, corrective actions were initiated and now the receiving staff records and verifies the amount of gallons delivered.

#### Cause

In one instance (chemical supplier), the Department verified the gallons received, and documented the amount. The documented amount delivered should be compared with the amount invoiced, prior to authorization of the payment. The IAD observed that the Department did not document the chemical gallons received from a second supplier.

#### Effect

There is no indication of fraud in the observation, but the observed lack of consistency creates an increased risk for fraud (or unintentional errors) on the part of the chemical supplier and or the delivery driver.

#### Recommendation - Complete

During the course of the review, the Internal Audit Department (IAD) shared this observation with the Water Utility Department, immediate action was taken to implement a receiving document correcting the deficiency noted. The department and the Contract Manager are to be commended for such quick action.

*The IAD received copies of a new receiving document that specifies, much like the other chemical supplier documented: the amount of gallons received, with a verifying signature from the Department's receiving staff. This recommendation is considered implemented.*

To illustrate one way that information at each stage of the ordering-receiving process can be documented (controlled), the Internal Audit Department has provided an illustrated example in the Appendix of the report.

## 8. Contract: **GT Supplies** (Parts Supplier/Repair Work)

#### General Condition

The Internal Audit Department observed that the **contract owner, Public Services Department**, successfully manages the contract in the following areas:

- Total payments to the contractor are accurate in-so-far as the invoiced services are for contracted items, ✓  
Note: The department supplied an hourly rate for the contractor, but did not supply a contracted parts list with associated pricing. Since the labor cost is just one component of the total cost, this may make it difficult to determine the true cost effectiveness of this contract.
- Contract extensions have been performed per contract and City Procurement Code. ✓

#### Cause

Apparently, this contractor was selected based on hourly labor rate, or other criteria not supplied to the Internal Audit Department.

### Effect

Without a negotiated parts price list as part of the contract, the City cannot be assured that this contractor is the most cost effective option.

### **Recommendation 10**

The IAD recommends that the department utilize historical repairs to obtain a list of parts and costs to utilize in the next procurement of these types of services, in addition to the labor cost for repair work.

### **Finance Department Management Response**

FSD agrees with IAD recommendation to include the labor and parts prices as part of the next solicitation and contract selection process.

Estimated Completion: April 30, 2021 (Dependent if the department will continue with their requirement for this type of the contracts)

## 9. Contract: **Burck Oil** (Fleet Parts Supplier)

## 10. Contract: **Community Asphalt** (Paving Material Supplier)

### General Condition

The Internal Audit Department observed that the **contract owner, Public Services Department**, successfully manages the contract across all areas reviewed.

## General Contracts Process Recommendation

### **Recommendation 11 (Training Recommendation)**

In addition to the recommendations identified for each specific contract reviewed, the Internal Audit Department (IAD) recommends that the City develop a comprehensive training program to compliment the newly developed **Contract Management Policy**. Ideally, the training program would utilize “real life” examples (perhaps those found within these pages) to address the deficiencies outlined in this review.

The IAD’s observations suggest that future training should address financial accountability and “inventory control” basics such as:

- The amount of what is delivered to (received by) a department should be verified by department staff – at the point the contracted product or service is received – by independent “receiving” staff, i.e. not the person who placed the order. Simply receiving an invoice weeks later is not verification of what was actually delivered.

- The actual delivery document from the contractor should be verified (items listed on the document should be “counted” or otherwise verified) by the department receiving staff responsible for receiving the contracted goods or service.
- Once verified, the delivery/receiving document should be forwarded to the department staff responsible for authorizing the contractor’s invoice. In order to verify amounts billed on the invoice equal what was actually delivered, the invoice should be compared to the delivery/receiving document that has been verified by receiving staff. Part of this authorizing process is to verify invoiced prices equal prices agreed to in the contract.
- All documentation described above should be electronically filed in one location to create an easily accessible audit trail.

#### **Finance Department Management Response**

FSD agrees with IAD recommendation to include specific items to address financial accountability and inventory control basics. FSD provided contracts management training to Departments in November 2019. FSD will continue to provide training during this year with additional focus addressing deficiencies outlined in IADs recommendations.

Estimated Completion: September 30, 2021

## Appendix

## Finance Department Management Response (Complete)



William Brown  
City Internal Auditor  
Internal Audit Department

Finance Department City-Wide Contracts Review  
Audit No. 2019-IAD091019-06FD dated March 18, 2020

April 3, 2020

Dear Mr. Brown

The Financial Services Department ("FSD") recognizes the observed contract control deficiencies cited in the Finance Department Contracts Audit 2019-IAD091019-06FD and is taking active steps toward permanent solutions in the following:

- a) Improving the processes to prevent contractors from performing the work prior to receiving authorization;
- b) Improving internal controls and implementing processes to prevent exceeding of approval authorizations;
- c) Developing the training and training employees in proper receiving and verifying processes to prevent overpayments of invoices;
- d) Developing appropriate Scope of Services/Service Level Agreements to ensure the City receives appropriate level of service from Vendors;
- e) Developing processes to improve cyber-security and information systems requirements for the Contractors.

*Detailed Management Response with estimated completion timelines is provided below:*

### **1. Contract: Paving Lady (Paving Services)**

#### **IAD Observation 1: Inaccurate Invoice results in over-payment**

- **Recommendation 1 (a):** The contract owner department should develop internal controls ensuring the accuracy of all invoices.

FSD agrees with IAD's recommendation. FSD will work in development of training program for departments in receiving process. The training program will focus on training



in clearly defining receiving of the goods and services vs. invoices as submitted by the Vendors.

*Estimated Completion: September 30, 2021*

**IAD Observation 2: Contractor Work is performed prior to City Commission approval of a change order.**

- **Recommendation 1(b):** The contract owner department should develop internal controls to prevent contractors from performing work until it is properly authorized, per City Procurement Code.

FSD agrees with IAD's recommendation. FSD will work in development of training program for departments in correct change order/contract amendment process. FSD will also work with Departments to expedite the Amendment/Change Order processing to allow for quicker turnaround of documents.

*Estimated Completion:*

- *Training September 30, 2021,*
- *Expediting documents processing July 31, 2020 with full implementation of electronic signature process*

**2. Contract: Craig A. Smith (Engineering Services)**

**IAD Observation 1: City Manager Office approval authorization limit exceeded**

- **Recommendation 2 (a):** The contract owner department should develop internal controls ensuring that contract change orders are submitted to the proper authorizing body, per City Procurement Code.

FSD agrees with IAD's recommendation. FSD developed new Contracts management process where all change orders and task orders are routed through Procurement Division. Procurement division reviews all submittals and verifies the documents have required authorization prior to routing them for execution. Procurement Division will continue to review and verify proper authorizations are in place.

*Estimated Completion: Already implemented October 2019.*

**IAD Observation 2: Contractor performed work prior to the work being authorized.**

- **Recommendation 2 (b):** The contract owner department should develop internal controls to prevent contractors from performing work until it is properly authorized, per City Procurement Code.

FSD agrees with IAD's recommendation. FSD will work in development of training program for departments in correct change order/contract amendment process. FSD will also work with Departments to expedite the Amendment/Change Order processing to allow for quicker turnaround of documents.



*Estimated Completion:*

- o *Training September 2021*
- o *Expediting documents processing July 2020 with full implementation of electronic signature process.*

### 3. Contract: Community Champions (ProChamps)

**IAD Observation 1: The Department cannot easily verify the accuracy of remitted revenues.**

• **Recommendation 3:**

- o The City should develop a consistent practice in writing contracts where: a) the contractor collects fees or other revenue from an entity, b) the contractor remits the fee collected to the City, c) the contractor invoices the City for its services, d) the City pays the contractor for its "collection" services.
- o The City should put into place reporting and other controls to ensure activity transparency with contractors performing activities on behalf of the City.
- o The City should implement consistent, standardized policy from solicitation to contract negotiation to contract management to contract performance evaluation whereby "revenue" contracts are managed so that contractor performance and accuracy are assured.

FSD agrees with IAD's recommendation. FSD will work with the City's Attorney and departments in developing more robust scope of services during solicitation and contracting process to ensure proper recording and managing of received revenues in the contracts of this type. FSD will assist departments to enforce the current contract scope. New ProChamps contract provides for the access to the web based electronic registry and reports so that Department may verify the revenues as they are provided. FSD has implemented general contractor's performance review and will assist department to develop similar performance evaluation document for specific revenue contracts.

*Estimated Completion:*

- o *Development of scope of services & contract clauses for revenue contract – as each contract and requirement is different, FSD will apply this requirement at first applicable solicitation/contract.*
- o *Reporting access – August 31, 2020*
- o *Performance evaluation document – October 1, 2020*

**IAD Observation 2: Contractor e-commerce and systems security of citizen records was not documented nor verified.**

• **Recommendation 4:** The IAD recommends that the City develop system-security and e-commerce security controls for third party contractors that process citizen payments and other citizen information (PII). Some examples of these types of controls are:

- o PCI Compliant Certification - this is an outside source verification of encryption, etc.





- o SOQ Report - this is an outside source verification of contractor controls, etc.
- o System Security Documentation, such as firewall documentation, patch maintenance, etc
- o Policy and Procedures related to access control and segregation of duties
- o Policy related to records retention, destruction once a file has been processed

FSD agrees with IAD recommendation to improve requirements for the Contractor's system security. FSD will review IAD's recommendations for specific certifications, policies and procedures and records retention with the City's Attorney. Once review with Attorney is completed, and based on the Attorney's recommendation, standard terms and conditions will be developed and implemented in all applicable contracts going forward.

*Estimated Completion: October 30, 2020*

#### **4. Contract: Accounts Receivable Inc. (ARI) (Collection Services)**

**IAD Observation 1: Contractor security systems for citizen records was not documented nor verified.**

**Recommendation 5: (same as recommendation # 4)**

FSD response is the same as for recommendation # 4.

*Estimated Completion: October 30, 2020*

**IAD Observation 2: Contractor Poor Performance is not Documented**

**Recommendation 6:** Where applicable, especially where there has been a history of disagreements with the contractor, utilize Service Level Agreements (SLAs) as part of the Solicitation Process and development of the contract, to clearly communicate to the contractor the requirements/expectations of the City, and to clearly define the criteria the City will use to determine the contractor's performance

FSD agrees with IAD recommendation and has already implemented the process of development of appropriate Scope of Services/SLAs during the solicitation process and contract development.

*Estimated Completion: Already implemented in spring 2019 and continues to be applied and improved for each solicitation and contract.*

#### **5. Contract: On-Line Information Systems (Collection Services)**

**IAD Observation 1: Contractor security systems for citizen records was not documented, nor verified.**

**Recommendation 7: (same as recommendation # 4)**

FSD response is the same as for recommendation # 4.

*Estimated Completion: October 30, 2020*



**IAD Observation 2: The contract contains non-City standard contract clauses related to contractor.**

**Recommendation 8: The IAD recommends that standard contract clauses related to insurance requirements, and Florida records retention law be added if and when this contract is renewed.**

FSD agrees with IAD recommendation and already has a process in place to review and amend the contracts with the standard and new applicable standard clauses during the renewal process.

*Estimated Completion: Already implemented.*

#### 6. Contract: ENCO (Customer Service Call Center)

**IAD Observation 1: Contractor Systems Security is not Documented, nor Verified**  
**Recommendation 9: (same as recommendation # 4)**

FSD response is the same as for recommendation # 4.

*Estimated Completion: October 30, 2020*

#### 7. Contract: Allied Universal, and Odyssey (Water Treatment Chemical Supplier)

**IAD recommendations marked as complete. No Management Response required.**

#### 8. Contract: GT Supplies (Parts Supplier/Repair Work)

**IAD Observation 1: Total payments to the contractor are accurate in-so-far as the invoiced services are for contracted items,**

*Note: The department supplied an hourly rate for the contractor, but did not supply a contracted parts list with associated pricing. Since the labor cost is just one component of the total cost, this may make it difficult to determine the true cost effectiveness of this contract.*

**Recommendation 10: The IAD recommends that the department utilize historical repairs to obtain a list of parts and costs to utilize in the next procurement of these types of services, in addition to the labor cost for repair work.**

FSD agrees with IAD recommendation to include the labor and parts prices as part of the next solicitation and contract selection process.

*Estimated Completion: April 30, 2021 (Dependent if the department will continue with their requirement for this type of the contracts)*

#### 9. Contract: Burck Oil (Fleet Parts Supplier)

**IAD made no observations or recommendations that required Management Response.**



#### 10. Contract: Community Asphalt (Paving Material Supplier)

**IAD Observation:** The IAD's observations suggest that future training should address financial accountability and "Inventory control" basics such as:

- The amount of what is delivered to (received by) a department should be verified by department staff — at the point the contracted product or service is received — by independent "receiving" staff, i.e. not the person who placed the order. Simply receiving an invoice weeks later is not verification of what was actually delivered.
- The actual delivery document from the contractor should be verified (items listed on the document should be "counted" or otherwise verified) by the department receiving staff responsible for receiving the contracted goods or service.
- Once verified, the delivery/receiving document should be forwarded to the department staff responsible for authorizing the contractor's invoice. In order to verify amounts billed on the invoice equal what was actually delivered, the invoice should be compared to the delivery/receiving document that has been verified by receiving staff. Part of this authorizing process is to verify invoiced prices equal prices agreed to in the contract.
- All documentation described above should be electronically filed in one location to create an easily accessible audit trail.

**Recommendation 11 (Training Recommendation):** IAD recommends that the City develop a comprehensive training program to compliment the newly developed Contract Management Policy. Ideally, the training program would utilize "real life" examples (perhaps those found within these pages) to address the deficiencies outlined in this review.

FSD agrees with IAD recommendation to include specific items to address financial accountability and inventory control basics. FSD provided contracts management training to Departments in November 2019. FSD will continue to provide training during this year with additional focus addressing deficiencies outlined in IADs recommendations.

*Estimated Completion: September 30, 2021*

As itemized above, the Financial Services Department will pursue implementation of your recommendations as indicated in the above timelines. Please let us know if you have any questions or concerns.

Sincerely,

Valentina Sustaita  
Purchasing Manager

Bruce Miller  
Financial Services Director

## Past Audits of City Contracts

### **Palm Beach County Office of Inspector General Report**

The Palm Beach County Office of Inspector General (OIG) audited the City of Lake Worth's contract process and reported its findings in the Contract Oversight Report CA-2015-0076. In the November 2016 report, the OIG found the following:

#### **FINDING (1):**

The City did not have a documented policy or procedure for contract monitoring. Lack of such policy and procedure increased the likelihood of City funds not being expended appropriately.

#### **FINDING (2):**

The City does not have a policy or procedure about the manner in which contract files are maintained. A clear policy and procedure would assist the contract managers in locating, using, managing, and maintaining contract information.

#### **FINDING (3):**

There is no citywide risk assessment tool/model in use by the City departments. Therefore, staff resources available for contract monitoring are not focused in an efficient and effective manner.

On September 2019, the City issued the following response to the OIG's three corresponding recommendations, effectively signaling compliance:

#### **Finding 1**

- **Recommendation: Implement a citywide contract monitoring policy/procedure and provide staff training.**

The Contract Management Policy is complete, including City Attorney review, and will be recommended for approval and adoption at the October 1, 2019 Commission Regular Meeting.

#### **Finding 2**

- **Recommendation: Address in policy and/or procedure method by which contract files are maintained.**

Currently, the Purchasing Division maintains an Excel file for contracts. The City completed the selection process and awarded the contract for the contract management software on August 16, 2019. Implementation of this software is scheduled for November 2019. The City will then use this tool to maintain City Contracts.

#### **Finding 3**

- **Recommendation: Develop and implement a contract monitoring risk assessment tool.**

The Contract Management Policy includes contract monitoring and contractor performance documentation. Documentation will be included in contract files and monitored by the Purchasing Division for compliance. Future consideration to include performance monitoring may occur, as an additional component to the new contract management software after the software is implemented and well established; This need will be reevaluated prior to end of FY 2020.



## Example of Inventory Reconciliation Forms

To illustrate one way that information at each stage of the ordering-receiving-invoicing process can be documented (controlled), the Internal Audit Department has provided the following illustrated example.

The department / purchasing places a PO (an order) with the chemical supplier, then the supplier delivers the product, then:

### **A. Inventory Log** ([Receiving staff](#) completes)

|        |   |             |                     |
|--------|---|-------------|---------------------|
| Month: | May 2020  |             | Calculated Usage    |
|        | Inventory Amount Measured the First Day of the Month                | 125 gallons |                     |
|        | Inventory Amount Received During the Month - from receiving tickets | 420 gallons | 545 gallons         |
|        | Inventory Amount Measured the last Day of the Month                 | 150 gallons | 150 gallons         |
|        | Calculated Usage for the Month                                      |             | 395 gallons         |
|        |   |             | 545-150=395 gallons |

### **B. Inventory Consumption Log** ([Inventory](#) or ["Production" staff](#) completes)

|        |                            |                             |                                     |
|--------|----------------------------|-----------------------------|-------------------------------------|
| Month: | May 2020 Inventory Usage   | Actual Usage                | Calculated Usage (from A. Inv. Log) |
| 5/5    | Amount of Inventory Used   | 125 gallons                 |                                     |
| 5/12   | Amount of Inventory Used   | 140 gallons                 |                                     |
| 5/20   | Amount of Inventory Used   | 130 gallons                 |                                     |
|        |                            |                             |                                     |
|        | Actual Usage for the Month | 395 gallons                 | 395 gallons                         |
|        |                            | These numbers should match. |                                     |

If the usage based on staff records at receiving do not match actual usage records recorded by production staff, then a member of management should reconcile the two.

### **C. Inventory Reconciliation Log** ([completed by management](#))

|         |                                       |                         |
|---------|---------------------------------------|-------------------------|
| Month:  | Management Performing Reconciliation: | Date of Reconciliation: |
| Result: |                                       |                         |

## Correspondence from City Resources

### **From correspondence with City Risk Manager and City Insurance (email March 2020):**

*"If there is a loss on a particular job, you need to be able to use the current contract/scope to tender the claim to the contractor. If a contractor is doing work under a new contract with a new scope, and a loss takes place prior to an executed contract, it'll make tendering that claim back to them much more difficult."*

### **From correspondence with the City Attorney (email March 2020):**

*"For most contractors, the only records they have that are public records are the records they create and/or provide to the City (e.g., reports created, invoices, etc.). However, if a contractor is "acting on behalf of the public agency" some or all internal records of the contractor could be public records.*

*If a contractor is subject to the public records law, it needs to retain the public records in accordance with the law or transfer them to the agency at the end of the contract."*

I believe it was 2016 where that language became mandatory in all the city's contracts. Older contracts will likely not include the language – VERIFY AGAINST CONTRACTS REVIEWED.

## Florida Records Retention Statute

### **Statute Sections applicable to contractors acting on behalf of the City**

For Customer Files, Use Contracts/Leases/Agreements: Non-Capital Improvement

CONTRACTS/LEASES/AGREEMENTS: NON-CAPITAL IMPROVEMENT Item #65

This record series consists of legal documents, correspondence, reports, and other records documenting the negotiation, fulfillment, and termination of contracts, leases, or agreements to which the agency is a party other than those involving capital improvement/real property. In addition, it includes the various contracts, leases or agreements entered into for goods and services, such as contracted legal services, the purchase of gas and fuel oil, annual purchases of inventory maintained items, and customer/client agreements. See also "CONTRACTS/LEASES/AGREEMENTS: CAPITAL IMPROVEMENT/REAL PROPERTY" and "BARGAINING RECORDS."

**RETENTION:** 5 fiscal years after completion or termination of contract/lease/agreement.

RECEIVING REPORTS use DISBURSEMENT RECORDS: DETAIL or PURCHASING RECORDS

DISBURSEMENT RECORDS: DETAIL Item #340

This series consists of records documenting specific expenditures or transfers of agency moneys for the procurement of commodities and services and other purposes. The series may include, but is not limited to, procurement records such as requisitions, requisition logs, purchase orders, contracts, purchasing card (p-card) receipts, vendor invoices, receiving reports, acceptances of contract deliverables,

approvals, and related documentation; and expenditure records for disbursements made through checks, warrants, electronic fund transfers (EFT), purchasing cards, or other methods, such as payment vouchers, approvals, check registers, canceled or voided checks, check stubs, canceled or voided warrants, disbursement ledgers, journal transactions, expenditure detail reports, refund records, and other accounts payable and related documentation. The series may also include a copy of the agency's sales tax exemption form. Retention is based on Section 95.11(2), Florida Statutes, Statute of Limitations on contracts, obligations, or liabilities. See also "DISBURSEMENT RECORDS: SUMMARY," "PURCHASING RECORDS," and "TRAVEL RECORDS."

**RETENTION:** 5 fiscal years after transaction completed.

#### PURCHASING RECORDS Item #42

This record series consists of copies of purchase orders that are retained by the originating office, while the record copy is sent to the Purchasing/Business Office and another copy is sent to the appropriate vendor for action. The series may include, but is not limited to, copies of requisitions, copies of receiving reports, and a log of outstanding and paid requisitions and purchase orders used for cross-referencing purposes. See also "DISBURSEMENT RECORDS: DETAIL."

**RETENTION:** Retain until obsolete, superseded, or administrative value is lost.

#### SOFTWARE RECORDS use ELECTRONIC RECORDS SOFTWARE AND DOCUMENTATION ELECTRONIC RECORDS SOFTWARE AND DOCUMENTATION Item #231

This record series consists of proprietary and non-proprietary software as well as related documentation that provides information about the content, structure, and technical specifications of computer systems necessary for retrieving information retained in machine-readable format. These records may be necessary for an audit process.

**RETENTION:** Retain as long as software-dependent records are retained.

#### STUDIES: INTERNAL use MANAGEMENT SURVEYS/STUDIES: INTERNAL MANAGEMENT SURVEYS/STUDIES: INTERNAL Item #30

This record series consists of raw data and work papers for surveys conducted by the agency to study management issues such as client/patron/employee satisfaction and service improvement. This may include survey/poll responses, tally sheets, suggestion box submissions, and other records related to the study of internal operations. This does not include reports prepared by consultants. The final compilation of the data may be produced as a report, which may be scheduled under a different record series depending on the nature and depth of the survey/study (for instance, "FEASIBILITY STUDY RECORDS," "OPERATIONAL AND STATISTICAL REPORT RECORDS," or "PROJECT FILES" items).

**RETENTION:** 1 calendar year after completion of data collection or release of report, whichever is later.

#### PAYMENT CARD SENSITIVE AUTHENTICATION DATA Item #395

This record series consists of elements of a customer's payment card data that are used to authenticate a financial transaction using that payment card (e.g., credit card, debit card). Sensitive authentication data includes those elements defined as such by the Payment Card Industry Security Standards Council in their Data Security Standard: Requirements and Security Assessment Procedures (Version 3.1, April 2015 or subsequent edition) and includes full magnetic stripe data (also known as full track, track, track 1, track 2, and magnetic-stripe data); three-digit or four-digit card verification code or value; and personal identification number (PIN) or encrypted PIN block.

**RETENTION:** Destroy immediately upon completion of transaction.

#### RECEIPT/REVENUE RECORDS: DETAIL Item #365 (Use this for Cash Collection Records)

This series consists of records documenting specific receipts/revenues collected by an agency through cash, checks, electronic fund transfers (EFT), credit and debit cards, or other methods. The series may include, but is not limited to, records such as cash collection records and reports, cash receipt books, cash register tapes, deposit/transfer slips, EFT notices, credit and debit card records, receipt ledgers, receipt journal transactions and vouchers, refund records, bad check records, and other accounts receivable and related documentation. NOTE: Agencies that electronically transmit checks to a financial institution must retain the checks under this item unless the financial institution is retaining complete images of the checks for the minimum retention required for this item. Retention is based on Section 95.11(2), Florida Statutes, Statute of Limitations on contracts, obligations, or liabilities. See also "RECEIPT/REVENUE RECORDS: SUMMARY."

**RETENTION:** 5 fiscal years after transaction completed.

#### REGISTRATION/PERMIT/LICENSE/CERTIFICATION RECORDS: REQUIRED BY CITY OR COUNTY CODE/ORDINANCE (NO PERMITTING FEE) Item #427

This record series consists of application files for registrations, permits, licenses or certifications as required by city or county code/ordinances not requiring a permitting fee. The records may relate to a wide variety of issues or activities, including, but not limited to: special events and/or temporary street closures for such activities as construction on private property, repairs, parades, street parties, garage/yard sales, temporary signs, and other events; contractors authorized to work within the city or county; small businesses; abandoned or foreclosed real property; residential rental property; residential or public parking; solicitors or peddlers; bicycles; tree removal; and construction or demolition debris disposal.

The series may include, but is not limited to, applications, affidavits and other supporting documentation as required by the code/ordinance.

**RETENTION:** 1 anniversary year after denial or expiration of registration/permit/license/certification or withdrawal/abandonment of application.



## REGISTRATION/PERMIT/LICENSE/CERTIFICATION RECORDS: REQUIRED BY CITY OR COUNTY

### CODE/ORDINANCE (PERMITTING FEE) Item #428

This record series consists of application files for registrations, permits, licenses or certifications as required by city or county code/ordinances requiring a permitting fee. The records may relate to a wide variety of issues or activities, including, but not limited to: special events and/or temporary street closures for such activities as construction on private property, repairs, parades, street parties, garage/yard sales, temporary signs, and other events; contractors authorized to work within the city or county; small businesses; abandoned or foreclosed real property; residential rental property; residential or public parking; solicitors or peddlers; bicycles; tree removal; and construction or demolition debris disposal.

The series may include, but is not limited to, applications, affidavits and other supporting documentation as required by the code/ordinance.

**RETENTION:** 5 fiscal years after denial or expiration of registration/permit/license/certification or withdrawal/abandonment of application.

### SECURITY BREACH NOTICE RECORDS Item #432

This records series consists of security breach notices submitted to the Florida Department of Legal Affairs as required by Section 501.171(3)(a), Florida Statutes, Security of confidential personal information. The series provides such information as a synopsis of the events surrounding the breach; the number of individuals affected by the breach; any services being offered related to the breach; a copy of the notice sent to affected individuals; copies of police reports; copies of policies in place regarding breaches; and steps that have been taken to rectify the breach.

**RETENTION:** 5 fiscal years after date of determination that no identify theft or financial harm resulted from the breach OR 2 anniversary years after last payment in a transaction involved in a violation, whichever is later.

### RECEIPT/REVENUE RECORDS: DETAIL Item #365 (Use this for Cash Collection Records)

This series consists of records documenting specific receipts/revenues collected by an agency through cash, checks, electronic fund transfers (EFT), credit and debit cards, or other methods. The series may include, but is not limited to, records such as cash collection records and reports, cash receipt books, cash register tapes, deposit/transfer slips, EFT notices, credit and debit card records, receipt ledgers, receipt journal transactions and vouchers, refund records, bad check records, and other accounts receivable and related documentation. NOTE: Agencies that electronically transmit checks to a financial institution must retain the checks under this item unless the financial institution is retaining complete images of the checks for the minimum retention required for this item. Retention is based on Section 95.11(2), Florida Statutes, Statute of Limitations on contracts, obligations, or liabilities. See also "RECEIPT/REVENUE RECORDS: SUMMARY."

**RETENTION:** 5 fiscal years after transaction completed.

REGISTRATION/PERMIT/LICENSE/CERTIFICATION RECORDS: REQUIRED BY CITY OR COUNTY CODE/  
ORDINANCE (NO PERMITTING FEE) Item #427

This record series consists of application files for registrations, permits, licenses or certifications as required by city or county code/ordinances not requiring a permitting fee. The records may relate to a wide variety of issues or activities, including, but not limited to: special events and/or temporary street closures for such activities as construction on private property, repairs, parades, street parties, garage/yard sales, temporary signs, and other events; contractors authorized to work within the city or county; small businesses; abandoned or foreclosed real property; residential rental property; residential or public parking; solicitors or peddlers; bicycles; tree removal; and construction or demolition debris disposal.

The series may include, but is not limited to, applications, affidavits and other supporting documentation as required by the code/ordinance.

**RETENTION:** 1 anniversary year after denial or expiration of registration/permit/license/certification or withdrawal/abandonment of application.

REGISTRATION/PERMIT/LICENSE/CERTIFICATION RECORDS: REQUIRED BY CITY OR COUNTY  
CODE/ORDINANCE (PERMITTING FEE) Item #428

This record series consists of application files for registrations, permits, licenses or certifications as required by city or county code/ordinances requiring a permitting fee. The records may relate to a wide variety of issues or activities, including, but not limited to: special events and/or temporary street closures for such activities as construction on private property, repairs, parades, street parties, garage/yard sales, temporary signs, and other events; contractors authorized to work within the city or county; small businesses; abandoned or foreclosed real property; residential rental property; residential or public parking; solicitors or peddlers; bicycles; tree removal; and construction or demolition debris disposal.

The series may include, but is not limited to, applications, affidavits and other supporting documentation as required by the code/ordinance.

**RETENTION:** 5 fiscal years after denial or expiration of registration/permit/license/certification or withdrawal/abandonment of application.

VENDOR FILES Item #97

This record series consists of records documenting services offered and/or provided by individual vendors. The series may include, but is not limited to, vendor background information; product/service and price lists; purchase/lease and payment histories; copies of invoices, purchase orders, and receiving reports; payment credit documentation; and other related records.

**RETENTION:** 3 fiscal years.