



MEMORANDUM

DATE: June 17, 2020

TO: Audit Committee of the School Board of the City of Virginia Beach

FROM: Terrie L. Pyeatt, CPA *TL*
Director, Office of Internal Audit

SUBJECT: **Contracts – Post-Award Process Audit**

BACKGROUND

As part of the fiscal year 2019 Audit Work Plan, the Office of Internal Audit (IA) has performed a Contracts Post-Award Audit. The Office of Purchasing Services (Purchasing), which is part of the Department of Budget and Finance, is responsible for the oversight of the contract function for non-construction contracts.

Schools, departments, and Purchasing can initiate a contract, depending on the contract's amount and terms. Typically, Purchasing initiates the higher dollar contracts. Contract administration duties begin after all parties have signed the contract. The contract administration function is primarily decentralized to the schools and departments based on the users of the contract. If a contract administrator is not specifically identified in the contract, the employee who approves the contract is responsible for its administration. Typical contract administration activities are aimed at ensuring enforcement of the contract terms and conditions while giving attention to the achievement of the stated output and outcome of the contract.

Purchasing revised the contract storage guidelines approximately 18 months ago. As a result, after contracts are signed, they are now stored in one of three central locations as follows:

- Purchasing's intranet site – Purchasing maintains a list of contracts on their intranet site of the contracts initiated through their office. These are usually the higher dollar contracts.
- BuySpeed – Department and schools scan certain contracts into BuySpeed using a "contract" identification code
- LaserFiche – Schools scan other contracts into LaserFiche. Schools and departments scan certain procurement card contract purchases into LaserFiche. The start/end dates are manually entered into LaserFiche when the contracts are scanned. These are usually the lower dollar contracts.

All contracts must be in one of these locations. Having the contracts easily accessible increases the transparency of the process and will enable VBCPS to monitor vendor compliance and performance.

AUDIT OBJECTIVES

This audit was performed to determine if VBCPS met and monitored the significant terms and requirements of selected contracts.

AUDIT SCOPE AND METHODOLOGY

Inquiry and examination of documents and data, as well as interviews, were the methods of reviewing internal controls. The audit period was January 1, 2019 – December 31, 2019. This audit includes only non-construction contracts.

To determine the contract population, IA downloaded the following information from each of the three central storage locations:

- Purchasing’s intranet site – Contracts that were initiated before January 1, 2020
- BuySpeed – Purchase orders and payment requests with the contract identification code from BuySpeed that were created during the audit period
- LaserFiche – Contracts scanned into LaserFiche that had contract start/end dates during the audit period.

Because the contract storage guidance was relatively new, IA sent a survey to all departmental Chief Officers and school principals to determine if their respective areas had been storing contracts based on Purchasing’s new procedures. There were 37 contracts that were not in or labeled in any of the three storage locations. Nine of the contracts were in BuySpeed but did not have the contract identification code and 28 contracts were not in any of the three locations but should have been scanned into LaserFiche. IA added the 37 contracts to the previously downloaded lists from the central locations which brought the total number of contracts to 1,642 contracts. They were broken out as follows:

- Purchasing’s intranet site – 325 contracts
- BuySpeed – 759 contracts
- LaserFiche – 558 contracts

From the population of 1,642 contracts, IA selected a sample of 75 contracts consisting of 20 or 6.2% from Purchasing’s intranet site, 40 or 5.3% from BuySpeed, and 15 or 2.7% from LaserFiche across various schools and departments. Testwork was completed on 62 of the 75 selected contracts (13 from Purchasing’s intranet site, 35 from BuySpeed, and 14 from LaserFiche). The remaining 15 contracts will be included in a subsequent audit report.

IA reviewed the 62 selected contracts to determine if the significant terms and conditions of the contracts were met. We performed the following testwork on each contract, when applicable:

- Contacted the contract administrator to determine the process of monitoring the significant terms and conditions;
- Reviewed documentation to determine if the significant terms and conditions were fulfilled;
- Reviewed a sample of invoices when contracts included prices to ensure the invoices matched the contract; and
- Ensured revenues were received on any selected revenue generating contracts.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

CONCLUSION

The results of the audit were discussed with management. We thank management and staff of the Office of Purchasing Services, as well as all of the many staff members from schools and offices whose contracts we selected, for their cooperation throughout the audit. A summary of the audit results, audit recommendations, other items noted, as well as responses from management, are included in this report. These recommendations are intended to further strengthen compliance with policies, procedures, and contract terms, as well as to strengthen internal controls and offer process improvements.

In our opinion, the results of the audit indicate that VBCPS was compliant with the significant terms and requirements for 58 of the contracts audited and partially compliant for the remaining four contracts.

cc: J. Kevin Beardsley, Director, Office of Purchasing Services
Farrell E. Hanzaker, Chief Financial Officer

AUDIT RESULTS AND MANAGEMENT'S RESPONSES

Finding No. 1: Contractual Oversight

IA noted that contract administrators were not fully monitoring two of the 62 contracts reviewed. See details as follows:

Sprinkler system maintenance and inspection contract:

The Office of Maintenance Services, within the Department of Division Services, does not have a process in place to ensure that every site received the required maintenance and inspections as per the contract terms. A VBCPS employee attends each inspection as they occur but he does not ensure that every site received the amount of maintenance and inspections as per the contract requirements.

Dumpster sanitation contract:

The Office of Custodial Services, within the Department of Division Services, does not have a process in place to ensure that each dumpster identified in the contract was cleaned as per the contract terms. The vendor sends VBCPS a schedule of when the cleanings should occur, but the individual locations do not receive this schedule, nor do they confirm that the cleanings have been done.

Recommendations:

We recommend that both offices refine their processes to ensure that the services are provided for all sites and/or locations listed in the contracts.

Management's Response:

The Chief Operations Officer concurs. Both offices have already begun making changes in their processes to ensure that the vendor completes all services in accordance with the contracts.

Finding No. 2: Payment Amounts

IA noted that overpayments were made for two of the 62 contracts reviewed. See details as follows:

District-wide notification services platform contract:

The Department of Communications and Community Engagement overpaid the annual invoice by \$16,521 for this service. The vendor prepared the invoice of \$175,210 and did not reduce it by the discount of \$16,521 included in the vendor's Best and Final Offer, as referenced in an attachment to the contract.

Online content management platform contract:

The Department of Human Resources overpaid the annual invoice by \$1,430 for this service. The vendor prepared the invoice of \$49,790 which did not match the signed contract amount of \$48,360. The contract administrator works in the Department of Budget and Finance, but the Department of Human Resources pays the invoice. There appeared to have been some confusion on the amount owed in the first year of this contract and, as a result, the incorrect amount was paid.

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

Recommendations:

We recommend that the departments recover the overpayments from the vendor and that they compare future invoices to the contracts and/or Best and Final Offers prior to making payments.

Management's Response:

The Chief Communications and Community Engagement Officer concurs with the recommendations related to the district-wide notification services platform contract. The Chief Human Resources Officer concurs with the recommendations related to the online content management platform contract. Staff has already made arrangements with both vendors to receive credits on the next invoice. Both departments are refining their process to include comparing the invoices to the contracts and/or Best and Final Offers prior to payment.

The Director of Purchasing Services will begin including the specific dollar amounts in contracts, whenever feasible. The Chief Financial Officer concurs.

Item Noted No. 1: Process Refinements

Over the last 18 months, the Office of Purchasing Services significantly revised how VBCPS stores contracts across the division. There are now three different locations where contracts are stored, depending on who initiated the contract and how payments will be made. Guidance on the new procedures was provided to employees in several different ways, including procedural manual updates, intranet updates, email, and verbally. As a result of the new guidance, significant improvements were made in the contract storage function and IA was able to easily access many of the contracts.

However, some of the guidance in the Purchasing Policies and Procedures Manual, the Business Manual for Schools and Central Offices, and the online resources related to the contract storage function do not reflect the new guidelines nor are they all complete. IA found that there was not a single resource that an employee could use that would provide all of the new guidelines in one place. This makes it difficult for employees to easily follow the new guidelines. As a result, employees have a) put incorrect labels on some contracts in BuySpeed, the purchasing/payment software, making it difficult to identify which transactions contain contracts, b) used payment requests instead of making payments on an established purchase order that has a contract, creating a disconnect between the payments and the contract, c) stored the contracts in multiple locations creating duplicates, and d) not stored some contracts in any of the designated locations as they said they were unaware of the new guidelines.

AUDIT RESULTS AND MANAGEMENT'S RESPONSES, CONTINUED

Recommendations:

We recommend that Purchasing update their contract storage resources so that they will be current and consistent. One method to do that would be to publish the detailed guidance in one central online location then use hyperlinks in other areas that will point to the central location. We also recommend that the updated guidance and link, if applicable, be communicated to all stakeholders.

Management's Response:

The Chief Financial Officer concurs. Purchasing will ensure the contract storage guidance are updated and communicated to all stakeholders by October 31, 2020.