

A large, stylized white outline of a sailboat is positioned on the left side of the page, partially overlapping the title text. The sailboat has a single large sail and a curved hull.

Contract Amendments Audit – Phase I

**City of Minneapolis
Internal Audit Department
December 9, 2019**

Table of Contents

Introduction.....	3
Audit Scope and Approach	3
Results.....	5
Conclusion	6
Background.....	7
I. Types of Contracts	7
II. Contract Change and Amendment Processes.....	8
III. Oversight and Monitoring	10
IV. Systems	11
Observations and Management’s Action Plans	12
ISSUE #1	
Changes to key contract amendment procedures are not formally logged (Moderate)	12
ISSUE #2	
Oversight and monitoring of some City contract change processes need strengthening (Moderate)	15

Introduction

The City of Minneapolis (City) Internal Audit Department conducted a review of the City's contract change and amendment processes. The objective of this review was to ensure controls related to the City contract change and amendment processes and procedures are adequately designed and operating effectively to sufficiently mitigate risk of fraud, waste, and abuse.

The audit scope and approach, testing results, and conclusion are discussed below, followed by a description of the City's contract change and amendment processes in the background section and a description of observations and management's action plans in the final section.

Audit Scope and Approach

In Scope: The scope of this review included an assessment of the design and operating effectiveness of controls related to City-wide procurement and non-procurement contract amendment processes, and oversight and monitoring of the processes, from January 1, 2015 through June 1, 2019. Governance, contract change and amendment processes, and data availability and reporting were reviewed.

Out of Scope: Grant agreements and subrecipient monitoring were not in scope for this engagement and are covered in 2019 City grant management audits. Construction contract amendments were excluded from testing as they will be tested in detail in phase II-*Construction Contracts Audit* currently in planning. This audit did not include a detailed review of contract compliance or contract payment transactions. Table 1, below, provides a summary of in-scope* and out-of-scope contracts for this engagement:

Table 1

Contracts with Amendments		Audit Coverage
IN SCOPE	Procurement Contracts * Professional Services Contracts Standard Contracts Request for Proposal Contracts Master Contracts * Buying Services Contracts Pricing Contracts Formal Contracts	Phase I - Contract Amendments Audit
IN SCOPE	Non-procurement Contracts * Non-competitive Contracts Real Estate transactions Revenue Contracts Memorandum of Understanding Joint Powers Agreements Park Board and MBC Contracts	
OUT OF SCOPE	Construction Contracts All City Construction Contracts Park Board Construction Contracts	Phase II - Constuction Contracts Audit (in planning)
OUT OF SCOPE	Procurement System Automated Workflows User Access Management	Procurement System Post-implementation User Access Management and Workflow Review (in planning)
OUT OF SCOPE	Park Board Contracts Professional Services Contracts General Contract Purchase Order	Office of the State Auditor - Agreed Upon Procedures for Contract Compliance (in reporting)
OUT OF SCOPE	Grant Agreements	Grant Management Audit (completed) Grant Management Audit-CPED (in planning) Grant Management Audit-Park Board (in planning)

Internal Audit reviewed procurement and non-procurement contract amendment data for the period in scope and noted 1,485 unique contracts with amendments in the population. Audit judgmentally selected 81 contracts with amendments to review. For each of the three competitive sourcing requirement thresholds in place over the period in scope, contracts with amendments were selected from the following categories:

- Below the applicable competitive sourcing requirement threshold
- Amendments resulting in a total contract change above the applicable bidding threshold and below \$2 million
- Amendments above \$2 million
- Amendments resulting in largest total contract value change

Table 2 below summarizes the number of contract types selected for review.

Table 2

Contract Type	Number of Contracts in Sample
Bids- Other	5
Joint Powers Agreement	1
Lease Agreement	1
Memo of Understanding	3
Pricing Contract	10
Professional Services - RFP	5
Professional Services – Standard Agmt	18
Revenue Contract	1
Other Professional Services	10
MPRB	10
NRP Contract	17
Total Sample	81

Audit procedures included inquiry, observation, and substantive testing for the following processes:

Governance

- Reviewed adequacy and completeness of *policies and procedures* governing contract changes
- Reviewed *change management* controls related to contract changes and amendments procedures
- Assessed adequacy of management *oversight and monitoring* related to contract changes and amendments
- Reviewed management of *fraud risks* related to contract changes and amendments

Contract Changes and Amendments Processes

- Reviewed internal controls over *request* and *approval* processes for all contract changes and amendments
- Obtained and analyzed data for contract changes and amendments in scope
- Selected contract changes and amendments and tested for compliance with policies and procedures

Data Availability and Reporting

- Assessed the availability, completeness and accuracy of documentation and reporting of contract changes and amendments

Results

As a result of this audit, two issues were identified:

1. Changes to key contract amendment procedures are not formally logged (Moderate)
2. Oversight and monitoring of some City contract change processes need strengthening (Moderate)

Table 3 below contains the overall evaluation of the severity of the risk and the potential impact on operations. There are many areas of risk to consider, including financial, operational, compliance, and reputational, when determining the relative risk rating. Issues are rated as High, Moderate, or Low.

Table 3

Contract Amendments Audit - Summary of Observations and Issue Ratings		
High	Moderate	Low
	Changes to key contract amendment procedures are not formally logged	
	Oversight and monitoring of some City contract change processes need strengthening	

- **High Risk:** Some key controls do not exist or are not effective resulting in impaired control environment; high risk improvement opportunities require immediate corrective action
- **Moderate Risk:** Adequate control environment in most areas; moderate risk improvement opportunities identified which require corrective action
- **Low Risk:** Satisfactory overall control environment; small number of lower risk improvement opportunities identified which do not require a management action plan

The details of these observations are included within the *Observations and Management's Action Plan* section of this report, beginning on page 12.

Conclusion

Overall, the City maintains an adequate control environment in most areas for handling contract amendments; however, moderate improvement opportunities were identified to ensure strong mitigation of risk of fraud, waste and abuse. Strong controls around contract change and amendment processes also help ensure City policy and best practices are followed.

Internal Audit would like to thank Finance and Property Services, Comet Support, City Attorney, NCR, Minneapolis Park and Recreation Board, and MBC staff for sharing their time and expertise during this engagement.

We conducted this audit in accordance with the International Standards for the Professional Practice of Internal Auditing. 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.

Director of Internal Audit

Ginger Bigbie, CFE, CPA

Phone: (612) 673-5938

Email: InternalAuditDepartment@minneapolismn.gov

Website: <http://www.ci.minneapolis.mn.us/audit>

Audit Team for this Engagement

Derrek VanLith, Senior Consultant, Baker Tilly (Lead Auditor)

Travis Kamm, Internal Auditor

Comlan Alede, Internal Auditor

Finance and Property Services Primary Contacts

Pam Fernandez, Procurement Director

Mwende Nzimbi, Procurement Assistant Director

Background

The City's Procurement Division is vested by the City Charter¹ and the Code of Ordinances² with the responsibility of managing, facilitating, and overseeing the purchase and payment of goods and services for all City departments and independent boards. The City relies on Procurement for obtaining goods and services through open, competitive and cost-effective processes that reflect City values, ensure best value and use of public dollars, and facilitate vendor or contractor payments in a prompt manner.

A division of the Finance and Property Services Department, Procurement also assists with non-procurement contracts, as defined below, in obtaining necessary reviews and documentation, electronic signatures, and uploading final executed contracts and amendments into the procurement system. For purposes of this engagement, processes are summarized below by: I. types of contracts, II. contract change and amendment processes, III. oversight and monitoring, IV. systems.

I. Types of Contracts

City contracts can be defined broadly into two groups: procurement contracts and non-procurement contracts. The contracts follow different processes and lines of responsibility as they are executed and amended.

Procurement contracts are goods and services sourced through the Procurement division and system. Procurement buyers work with the department staff to solicit bids, execute, and amend contracts. Examples include: professional services contracts, such as standard contracts, requests for proposals, and master contracts (excluding Park Board and MBC professional services contracts); and buying services contracts, such as pricing contracts, formal contracts, and construction contracts.

¹ Article VIII. § 7.2. Departments, Minneapolis City Charter

² Title 2 Administration, Chapter 18 Purchasing, Minneapolis Code of Ordinances

Non-procurement contracts are not sourced by the Procurement division. They originate within the department or function responsible for the contract. Contracts are uploaded into the procurement system and payment processes are facilitated by Procurement staff upon execution of contract. Examples include real estate transactions, revenue contracts, grant contracts, Memorandum of Understanding, and Joint Powers Agreements. In addition, Minneapolis Park and Recreation Board (Park Board) and Municipal Building Commission (MBC) professional services contracts are not sourced through the City's Procurement division.

II. Contract Change and Amendment Processes

Contract amendments are written and agreed upon changes to contract price, terms, or scope of services, such as adding or removing work, or changing the terms or duration of a contract. Changes to construction contracts can occur under a variety of conditions. Due to the complexity of construction contracts and change processes, these contracts will be audited separately in Phase II-Construction Contracts Audit.

Procurement Contract Amendments

A department contract manager will notify Procurement staff (Buyer) when an amendment is requested for time extension, increase in funds, or change to scope of work. The Buyer reviews the requested amendment to determine if Permanent Review Committee (PRC) and/or Council approval is required and will coordinate activities to facilitate Committee and Council review and approval. Otherwise, the Buyer reviews and approves the contract amendment and facilitates department collaboration and approvals in the procurement system. The final amendment is routed for signatures and the contract purchase order is increased or decreased as needed.

Permanent Review Committee

The City Council established the PRC to review all Requests for Proposals (RFPs) for professional services contracts over \$175,000. RFPs are reviewed prior to their issuance to provide for uniformity in format and general conditions and to ensure conformity with City Ordinances, policies and Civil Rights goals. The PRC will certify the RFP is in compliance with the requirements through the issuance of the PRC Conformance Letter. PRC recommendations are submitted to the City Council for final approval based on the review.

For standard contracts in place after January 1st, 2019, amendments can be done only to extend the time (up to a total period of 5 years) or to increase contract to a maximum authorized amount of \$175,000 for the entire work. If under some unforeseen circumstances there is a need to increase the contract amount over the \$175,000 limit, the department must obtain PRC approval to waiver from the RFP process, prior to requesting the Council approval for the amendment. The contract competitive bidding threshold changes during the period in scope for this engagement are summarized below.

Time Period	Threshold*
Jan 1, 2000 – Dec. 31, 2016	\$50,000
Jan. 1, 2017 – Dec. 31, 2018	\$100,000
Jan. 1, 2019 - Current	\$175,000

* Purchases of goods and services greater than the threshold, currently \$175,000, are required to be competitively bid.

PRC waivers from the competitive contracting process may be granted for the following reasons:

- Sole source provider for the service has been demonstrated
- Request for qualifications or other information gathering provides written documentation that no respondents possess the required qualifications and therefore department may enter into negotiation with a new or incumbent vendor or contractor.
- Department demonstrates, and PRC concurs, that it is not cost effective to locate a new service provider. This reason will rarely occur except where the City has leased or purchased a license for software and termination of existing software plus purchase of new software, installation, and training of the City staff to use the software is not cost effective.
- Department demonstrates, and PRC concurs, that contractor or vendor is essential to complete work on project already in progress. Department should also demonstrate that contractor or vendor may not be hired as a sub-contractor by another contractor retained by the City.
- Department determines, and PRC concurs, that a vendor or contractor will provide a service for an extended period of time (cumulatively at least 5 years) and will agree to provide service under the terms of the City's Standard Form Agreement with no modifications.
- Department determines that a vendor or contractor will provide a service for an extended period of time with no price increase.

Non-procurement Contract Amendments

To amend contracts not sourced in the Procurement Division, department contract managers work with the City Attorney's office and obtain Council Approval, Affirmative Action Plan approval and insurance as needed. The final amendment document is imported into the procurement system for approvals and electronic signatures.

Minneapolis Park and Recreation Board

The City of Minneapolis acts as the purchasing agent for the Park Board through its Procurement division. The Park Board's buying services are handled through City Procurement, while all other contracts, *including Park Board professional services contracts* (non-procurement contracts), are managed by Park Board staff. The process for amending Park Board contracts is similar to contract processes for City departments. Park Board staff work with the board's attorney but utilize the City's Civil Rights requirements. The Park Board approves all contracts over \$100,000.

Municipal Building Commission

The Municipal Building Commission (MBC) has served as the steward for the historic Minneapolis City Hall and Hennepin County Courthouse since 1904. The MBC's mission is to provide effective and efficient services to operate, maintain and preserve the historic landmark City Hall and Courthouse building, and ensure a safe and functional environment for government employees, citizens and elected officials.

In 1999 the MBC Board directed staff to adhere to the City of Minneapolis purchasing policies. City Procurement assists MBC with buying services, but not with non-procurement or *professional services contracts*. MBC may utilize Hennepin County procurement processes for some contracts. The City facilitates all payments for MBC, and as such, contract information is uploaded into the City's procurement system.

Civil Rights Considerations

The value of a contract, including its associated amendments, determines what reviews are conducted by the Civil Rights Department. The City's Small and Underutilized Business Program ("SUBP") aims to redress past discrimination and to prevent discrimination against minority and women owned business enterprises ("MBEs and WBEs") for City contracts or projects (construction and development projects, professional and technical services projects, and commodities and supplies contracts). The Civil Rights Department administers SUBP which includes setting goals on projects and contracts, conducting good faith efforts reviews, and certifying minority and women owned businesses.

The Civil Rights Department also enforces Affirmative Action Planning (AAP), which is a combination of policies and procedures a company uses to prevent discrimination and promote equal employment opportunities for women, minorities and disabled persons.

The following are reviews and associated City Council approved contract thresholds:

- Labor Compliance (Prevailing Wage) – Contracts over \$50,000
- Affirmative Action Planning – Contracts over \$100,000
- Small and Underutilized Business Program goals (SUBP) – Contracts over \$175,000

III. Oversight and Monitoring

Because the primary objective of an effective procurement policy is to achieve the best value of money, it is important to manage fraud risk. The City Council approved the Contract Monitoring Program in 2000, outlining approaches to contract management and establishing roles and responsibilities throughout the City.

Procurement staff review and approve City contracts, changes and amendments to ensure contracting policies and procedures are in accordance with City ordinances and City Council resolutions. Department management are responsible for compliance with department contracts, and oversight and monitoring of vendor or contractor performance.

There is no single right way to monitor a contract. The most effective systems are flexible and tailored to each agreement. Practices such as employee education and documented, effective internal controls and monitoring activities can help detect and prevent fraud.³ Employees who manage contracts are in the best position to identify vulnerabilities and red flags. Internal controls including segregation of duties, automated workflows, and levels of approval are essential throughout the procurement system. Continuous monitoring, with the assistance of technology, can help management obtain insight into the effectiveness of internal controls and respond proactively to risks. Collecting key process data can help with identification of trends and outliers, such as the number of contract amendments over time and change in total contract value. Leveraging data analytics can assist management with monitoring efforts of high-risk contract amendment processes and support data-driven decision-making.

IV. Systems

The City implemented a new procurement system in February 2019 to support and automate the City's procurement processes. Systems additions include supplier self-service access, automation of bidding and RPF processes, and automation of contract drafting and signature workflows. Benefits of the new system include:

- Faster and more efficient procurement processes
- Improved supplier experience as system is similar to those used by Hennepin County and the State of Minnesota.
- Improved supplier electronic response to solicitations and view of contracts, purchase orders, other payment information, and bid tabulations to improve their future bidding.
- Improved supplier identification in a given category and improved communication of solicitations to relevant suppliers
- More consistent contracting processes by using current templates to reflect updated law changes
- Improved reporting of metrics related to purchases by City departments.

New contracts and associated amendments are electronically generated for procurement contracts and can be electronically routed for signatures and necessary approvals, including City Attorney and Civil Rights reviews. Contracts originating prior to new system implementation (legacy contracts), and non-procurement contracts, are not included in the new system's automated workflow until final contract and changes are uploaded and routed for signatures. For these contracts procurement staff and department management work outside the system to ensure contracts, changes and amendment processes and documentation follow policy, documentation is uploaded into the new system, and vendor or contractor payment is facilitated.

Detailed testing of the new procurement system workflows and user access management controls will be tested as part of the *Procurement System Post-Implementation Workflow and User Access Management Review*, currently in planning.

³ 2018 Fraud Examiner Manual – Association of Certified Fraud Examiners

Observations and Management's Action Plans

ISSUE #1

Changes to key contract amendment procedures are not formally logged (Moderate)

Observations

Procurement Department

- Procurement Division policies and procedures for managing contracts and changes are maintained on the department's intranet pages. Key procedures have been updated to reflect changes with the new procurement system implementation in February 2019; however, clear change management logs are not available to indicate nature and timing of key changes.

Some prior key procedures, not meant to be maintained, may be found on nested Procurement intranet pages. For example, standard agreement form contract versions from prior years are identified at the bottom of a subpage within the Contract Management and Professional Services section under the Procurement Division home page. A link for help on the Standard Contract Form page includes references to some staff who have been separated from the City for several years. Management continues to update documentation.

Neighborhood and Community Relations (NCR)

- NCR is responsible for amendments associated with Neighborhood Revitalization Program (NRP) contracts. These contracts are funding agreements with the City's neighborhood associations, third-party vendors and departments and jurisdictions to help implement neighborhood projects and programs. NCR staff have institutional knowledge in managing and amending these contracts; however, the key processes and procedures are not documented.

Minneapolis Park and Recreation Board

- Park Board has a separately elected Board that is the governing body for the establishment Superintendent authority. The Park Board maintains financial policies and a procurement manual that outline contract amendment procedures specific to the Park Board, but these documents have not been revised recently and do not reflect City changes in the competitive sourcing requirement thresholds and Procurement processes. For example, the Financial Management Policies reference the City's \$100,000 threshold for RFPS and bids and the City's requirement that contracts over \$100,000 are to receive Small and Underutilized Business Program goal review. Those City procurement limits were changed effective January 2019 to \$175,000. The Park Board Financial Management Policies were last updated in 2017, and the Procurement Manual was last revised in 2015.

Criteria

Due to the inherent high risk in procurement and contracting, it is best practice to maintain updated policies and procedures to ensure compliance with contract agreements, applicable laws and regulations, and competitive sourcing requirements when applicable for all contract types. Procedural documents should document current processes and procedures.

Cause

Non-procurement procedures are decentralized, maintained at the department level and don't contain change management processes.

Risk

- Lack of current and complete contract change procedural documentation can result in improper contract changes or inconsistent practices that do not comply with contract agreements, applicable laws and regulations, and competitive sourcing requirements when applicable, and increases the risk of inefficiency, error, fraud, waste and abuse.
- Inadequate change management practices increase the risk that changes to procedures at a specific point in time are not clear, such as what was changed and why, and whether changes were properly reviewed and approved.

Recommendation

Procurement Department

- Procurement department management should implement a formal change management process, such as a change management log, that identifies each key procedural change, when the change became effective, and who approved the change.

Periodic review and update of key procedures should include "Roles and Responsibilities in Contract Monitoring", documented on the Procurement intranet page under Contract Management and Professional Services section. This content was established as required by City Council action on July 28, 2000 but was last updated in 2012.

Neighborhood and Community Relations (NCR)

- NCR procedures for non-procurement contracts should be documented and follow a formal change management process that tracks key procedural changes, effective dates, and approvals. Procedures should be reviewed on a regular basis and updated as needed. In addition, any manual documentation or tracking of contract-related activities should be converted to electronic form, such as a spreadsheet, to reduce risk of error and improve transparency.

Minneapolis Park and Recreation Board

- The Park Board of Commissioners should consider modifying the Park Board Financial Management Policies to remain consistent with the City of Minneapolis competitive sourcing requirement thresholds. Otherwise, the Board should remove the references to the City thresholds within the Park Board documents.

Management Action Plans

Procurement Management response:

In October 2015, the City Council directed Procurement to pursue technological options for creating a digital purchasing portal for sourcing of products and services. After approval of the

project in late 2017, Procurement implemented an electronic system for sourcing and contract management in February of 2019. This major system change significantly reduced paper copies, reduced approval and processing time, and implemented an electronic signature process; it was a major overhaul of city procurement and contracting processes which required many changes in the procedural documents..

The system has been in use for nine months. The Internal Auditor performed this audit while Procurement is still in the process of making final updates and edits to the internal Procurement procedures website. Preference was given to updating "external" procedural documents first to create a positive experience for suppliers. Updates to the documents are necessary as minor enhancements and improvements are made to the system based on input from both internal and external users. Current versions of various procedural documents were provided to the Internal Audit team Procurement will continue to develop/update the procedure manuals whenever process or procedural changes are made. Working with the IT department, Procurement will develop a mechanism to save and log outdated procedures on the website.

Target remediation date: December 31, 2020

Responsible party: Pam Fernandez, Procurement Director

NCR Management Response

Management will ensure key non-procurement contract procedures are documented, reviewed and updated periodically. Management will develop a spreadsheet to formally track key procedural changes with their effective dates and approval. Staff will be asked to begin using spreadsheets for any contract and monitoring activities that are currently performed on paper.

Target remediation date: September 30, 2020

NCR Responsible parties: David Rubedor, Director Neighborhood and Community Relations; Mark Winklehake, Director, Development Finance

Park Board Management response:

Management will ensure key non-procurement contract procedures are documented, reviewed and updated periodically. Management will develop a spreadsheet to formally track key procedural changes with their effective dates and approval. Staff will be asked to begin using spreadsheets for any contract and monitoring activities that are currently performed on paper.

Target remediation date: September 30, 2020

Park Board Responsible party: Juli Wiseman, Park Board Finance Director

ISSUE #2

Oversight and monitoring of some City contract change processes need strengthening (Moderate)

Observation

Procurement Contracts

(Sourced by Procurement and resulting from bids or Request for Proposals)

Procurement contract procedures require contract amendments for procurement contracts be handled through procurement buyers for proper review and approval, then approval by City Council if the value of the contract and amendments exceeds the threshold, currently \$175,000. Audit noted:

Potential Department Bypass of Procurement Controls

Some contract changes may be submitted for approval directly to the Ways & Means Committee of the City Council prior to Procurement management review. It is possible for department staff to add contract amendments to the Ways and Means Committee agenda through the Legislative Information Management System (LIMS) without procurement approval, bypassing the procurement control environment. Several Procurement resources review the Ways and Means agenda for amendments that bypassed the procurement control environment; however, this review is conducted during the Ways and Means Committee agenda setting process, resulting in a short window of time for corrective action and increasing the risk that inappropriate changes may be approved by City Council.

PRC Review - Results and Analysis

Permanent Review Committee (PRC) attendance and contract activity subject to review is logged electronically; however, key outcomes, such as overall results of the review, are not included in the log. Including key outcomes of the PRC review process in the log would provide data for high level trending, analysis and data-driven decision-making.

Non-procurement Contracts

(Contracts for non-purchasing agreements and non-sourceable purchases where sourcing responsibility is not under the purview of the Procurement Division)

Non-procurement contract changes are not centrally managed, instead handled within departments, which may result in manual and inconsistent processes in managing, routing and uploading contract amendments. Specifically:

- Non-procurement contracts and associated amendments are not fully integrated into to the procurement system. These contracts include real estate transactions, revenue contracts, grant contracts, Memorandum of Understanding, Joint Powers Agreements, and contracts such as Neighborhood and Community Relation's Neighborhood Revitalization Program (NRP) contracts. The lack of system integration increases the risk of error and inconsistent procedures.

- Park Board and Minneapolis Building Commission (MBC) non-procurement contracts and amendments are not integrated into the procurement system. Specifically, the procurement system is not being used for professional services contracts, resulting in manual and less efficient processes and a weaker overall control environment for those entities with contracts that impact City residents.

Criteria

Due to the inherent high risk in procurement and contracting processes, it is best practice to centralize and integrate key processes to strengthen the control environment, improve efficiencies, and mitigate the risk of error, fraud, waste and abuse.

Cause

The City's new procurement system, implemented in February 2019, has not been fully configured to service non-procurement contracts due to limited resources and Procurement Division capacity.

Risk

Failure to centrally monitor contract changes and amendments increases the risk that errors, fraud, waste, and abuse are not detected timely. Furthermore, in certain departments, timeliness is critical to process contract amendments; therefore, enhanced process controls should be thoughtfully discussed with a cross-functional team to ensure Procurement staff and system resources are adequate to effectively and efficiently perform oversight and monitoring of contract change and amendment processes.

Recommendations

To strengthen oversight and monitoring of the Citywide contract amendments control environment, audit recommends the following:

I. Overall Assessment of Procurement Risks and Controls

Procurement management, with assistance from Finance and department subject matter experts, should perform a risk assessment of the contract change processes to include key operational and financial *risks and controls* around the city-wide procurement environment to help identify control weaknesses and monitor the overall control environment. Responsible parties for those controls should be identified, and expectations for monitoring those controls should be established and documented.

II. Potential Department Bypass of Procurement Controls

LIMS enhancements should be implemented that route all contract change items first to Procurement subject matter experts for approval prior to being posted to the Ways and Means Committee agenda. Procurement management should collaborate with the City Clerk's office to

ensure this LIMS change request, whether approved or not, is documented and prioritized with other requested system changes based on costs and benefits.

III. PRC Review - Results and Analysis

Management should identify key data points that reflect the activities of the PRC, such as contract changes that are not approved but sent back to departments. The data should be logged and shared with PRC members. Trending or analysis of key fields should be performed periodically to help identify potential problems over time and to monitor effectiveness of the committee's review process. Any confidential data should be classified and handled appropriately.

IV. Decentralized Contract Processes

Management should consider linking non-procurement contract process procedures from other City departments and functions to the Procurement intranet pages to centralize documentation of citywide processes and expectations for all contracts, and improve communication and transparency.

Management should work with MBC and the Park Board to centralize management and sourcing of professional services contracts within the City's procurement environment to leverage the City's control environment and staff subject matter expertise. The centralized model would require additional resources for system configuration changes and possibly for staffing with increased volume of contracts and RFPs. A collaborative funding model with the MBC and Park Board would need to be agreed upon.

Management should consider building out the procurement system library to manage all procurement and non-procurement contracts. A more complete system library would help centralize and automate current non-procurement contracting processes, increasing efficiencies and strengthening controls. A cost/benefit analysis should be performed for potential procurement system library buildout, including consideration for Park Board and MBC professional services contracts.

Management Action Plan

I. Overall Assessment of Procurement Risks and Controls

Finance management will complete a collaborative contract processes risk assessment with input from impacted stakeholders to ensure key risks and their mitigating primary controls are monitored. Expectations for monitoring those controls will be documented.

II. Potential Department Bypass of Procurement Controls

LIMS enhancements have been discussed with the City Clerk to determine how the request will be prioritized, as many other system enhancements are needed. Management and the City

Clerk's Office are in agreement this is a priority request but changes will not likely occur in 2020 due to the higher prioritized changes the must be implemented.

III. PRC Review - Results and Analysis

Management will enhance the PRC tracking spreadsheet to include a few key fields reflecting committee activities and outcomes that can be used for analysis.

IV. Decentralized Contract Processes

City Ordinance regulates the extent of contract responsibilities of City Procurement Office regarding Boards. Under the ordinance (Chapter 18.100 and 18.105), Procurement is not responsible for the sourcing of professional technical services for Park Board or the Municipal Building Commission. Ordinance requires those purchases mandated under the State Statutes to be competitively sourced by City Procurement and that is currently being accomplished and is in compliance with applicable requirements.

Target remediation date: December 31, 2020

Responsible party: Pam Fernandez, Procurement Director
Lori Johnson, Deput Chief Financial Officer
With cooperation from the City Clerk's Office