



Memorandum

TO: Tom Duensing, Deputy City Manager
Donna Kennedy, Economic Development Director

THRU: Bill Greene, City Auditor (X8982)

FROM: Keith Smith, Sr. Auditor (X8416)

CC: Andrew Ching, City Manager
Keith Burke, Deputy City Manager
Rosa Inchausti, Deputy City Manager

DATE: June 15, 2022

SUBJECT: FINAL REPORT: Revenue Contract Audit

Attached is our final report on the subject audit. Copies of this report will be distributed to the mayor and council, the audit committee, and posted to the Internal Audit Office website.

Thank you and your staff for your cooperation during this project.

Revenue Contract Audit

June 15, 2022

Project Team:

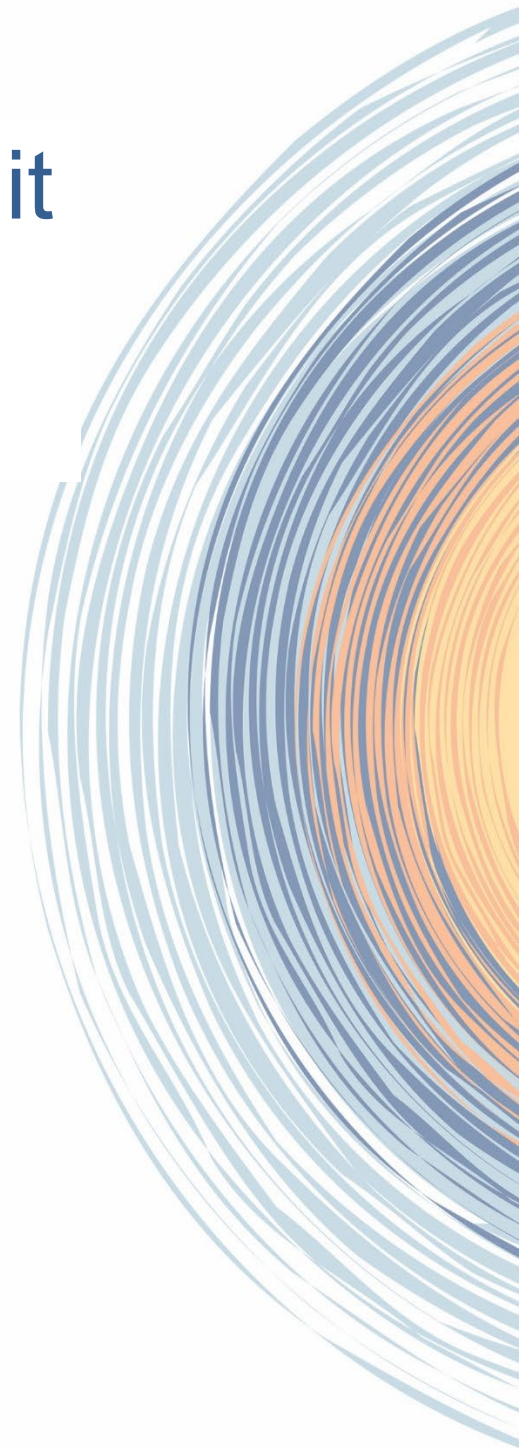
Bill Greene, City Auditor
Keith Smith, Sr. Auditor

Mission Statement

To enhance and protect organizational value by providing high-quality, objective, risk-based audit and consulting services to assist the City in accomplishing strategic priorities, goals, and objectives.



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Executive Summary

Purpose

We audited a sample of City of Tempe (City) revenue-generating contracts to:

- Evaluate internal controls related to the collection of revenue as stipulated in the contracts;
- Determine if payments to the City complied with contract requirements;
- Review compliance with contract requirements related to certificates of insurance.

Background

This audit focused on contracts that generate revenue for the City. Contracts are developed and executed throughout the City and the responsibility for enforcing terms and payment is decentralized. Many of the largest revenue-generating City contracts are leases. We selected contracts for this audit judgmentally, primarily based on revenue impact. As a result, six of the seven contracts selected for audit were leases. The contracts reviewed accounted for approximately \$2,785,000 in annual revenue and a one-time payment of \$3.2 million. Five of the seven contracts reviewed were managed by the Economic Development Office and two by Financial Services Department staff.

Results in Brief

For the contracts we reviewed, controls are in place to ensure that all revenue stipulated in the contracts reviewed is collected by the City.

For the seven contracts we reviewed, we noted that all payments due were calculated correctly, collected, and deposited to City accounts. Staff developed spreadsheets to calculate payments as described in the contracts, track the payment schedule, and record payments received. In addition, files contained documentation supporting various components of the payment calculation.

Improvements are needed to ensure that contractually required insurance coverage is active and documentation is maintained in files.

The Risk Management Division typically recommends standard insurance requirements be included in City contracts to protect both the City's and contractor's interests. For two of the six contracts reviewed requiring insurance, current certificates were found on file which state the required levels of coverage and policy dates. Certificates related to the other four contracts could not be located.

Uniform use of the City's Contract Management System (CMS) citywide would help strengthen controls over contract management from execution and monitoring through renewal or termination. It would also promote contract

management consistency when staff turnover occurs, or changes are made in contract monitoring responsibilities.

The City implemented Contract Insights, an enterprise-wide contract management system (CMS) in 2018. The CMS system provides automated tools and features needed to manage contracts from recognition of a need for an agreement through renewal or termination, including the ability to maintain and organize relevant documentation.

While conducting this audit, we noted that the CMS is not consistently used by City departments to enter and manage contracts. CMS offers functionality to set automated reminders for contract renewal or expiring certificates of insurance, document contract monitoring processes, store documentation, support contract research, and can serve as a central repository of city contracts.

Recommendations

Our detailed report contains recommendations to improve controls over monitoring insurance requirements and suggested implementation of a policy requiring Citywide use of the CMS for specific types of contracts.

Department Responses to Recommendations

<p>Rec. 2.1: Economic Development staff implement a system to ensure that all certificates of insurance meet contract requirements, are tracked to ensure insurance has not expired, and supporting documentation is maintained. The City’s CMS system can be used to monitor certificates and set reminders.</p>	
<p>Response: Deputy ED Director will create a spreadsheet template of all contracts and update an annual task in the City’s Contract Insights database to notify the assigned project manager to request an updated certificate and upload all certificates in the database.</p>	<p><u>Target Date:</u> September 30, 2022</p>
<p>Explanation, Target Date > 90 Days: The department is currently hiring several open positions and once all hires have been made, there will be corresponding project managers on these projects.</p>	
<p>Rec. 2.2: Economic Development request copies of the missing certificates of insurance and maintain them on file.</p>	
<p>Response: Once the system is implemented, project managers for corresponding contracts (as identified in the Contract Insights database) will notify each contract point of contact of requirement and provide 30 days to respond.</p>	<p><u>Target Date:</u> September 30, 2022</p>
<p>Explanation, Target Date > 90 Days: The department is currently hiring several open positions and once all hires have been made, there will be corresponding project managers on these projects.</p>	
<p>Rec. 3.1: Financial Services implement a Contract Management policy citywide. This policy could become part of the portfolio of other citywide policies such as cash handling and accounts receivable.</p>	
<p>Response: Financial Services staff will develop and implement a Citywide Contract Management policy. This policy will include the uniform use of the City’s Contract Management System (CMS). Staff will work with the current CMS administrator to refine the Citywide policy and ensure efficient and effective use. Implementation of the policy will include proper training and use of the system. Financial Services staff also intends to identify staff in each department responsible for entering, monitoring and revising contracts within the database. Financial Services staff will also maintain a department listing of users of CMS.</p>	<p><u>Target Date:</u> September 30, 2022</p>
<p>Explanation, Target Date > 90 Days: Financial Services is currently recruiting a Financial Services Director and initiating the annual external audit. The scope of the implementation of this recommendation is far reaching, and therefore, will require</p>	

significant time commitment on Financial Services staff as well as other department staff.

1 – Contract Revenue Collection

Background

Many of the largest revenue-generating City contracts are leases. We selected contracts for this audit judgmentally, primarily based on revenue impact. As a result, six of the seven contracts selected for audit were leases. The contracts reviewed accounted for approximately \$2,785,000 in annual revenue and a one-time payment of \$3.2 million. Five of the contracts audited were originally monitored by Community Development (recently transferred to Economic Development) and the remaining two (AZ Cardinals and Westcourt) were managed by Financial Services staff.

Approach

The IAO conducted the following steps to related to payments:

- reviewed the detailed contract language to determine how the payments specified in each contract were to be calculated;
- verified if the payments calculations were correct, ensured that the proper amounts were collected, and traced the payments into City accounts;
- identified procedures used by contact management staff to ensure payments received complied with contract provisions and documentation maintained supported the payment amounts.

Results

For the contracts reviewed, all payment amounts were correctly calculated, collected, and deposited to City accounts. Controls are in place to ensure that all revenue stipulated in the contracts reviewed is collected by the City.

We verified all payment calculations followed the requirements stipulated in the contracts. We traced figures used on the calculations back to original source documents as needed. We verified the frequency of the payments complied with the contract requirements and that all payments received were deposited in full into City accounts without exception (See Table 1).

TABLE 1 – Summary of Contracts Audited

Contract Number	Contract Description	Approximate Annual Revenue	Accurate Payment Calculations	All Payments Collected	Current Insurance Certificates
C2013-14 R	Liberty Lease-Bldg. 4	\$395,000	Yes	Yes	No
C2013-14 H	Liberty Lease-Lot 1 Unit 2	\$280,000	Yes	Yes	No
C2013-14 J	Liberty Lease - Bldg. 2	\$270,000	Yes	Yes	No
C89-11A	AZ Cardinal Training Facility Lease	\$675,000	Yes	Yes	Yes
C86-105	Westcourt in the Buttes Lease	\$800,000	Yes	Yes	Yes
C2011-125/C2017-266	Zaremba Lease and Settlement	\$365,000	Yes	Yes	No
C2020-215	Property Sale to ADOT	\$3.2M one-time payment	N/A	Yes	N/A

Staff developed spreadsheets to calculate payments as described in the contracts, track the payment schedule, and record payments received. In addition, files contained documentation supporting various components of the payment calculation.

Recommendation

None. For information only.

2 – Certificates of Insurance

Background

The Risk Management Division typically recommends standard insurance requirements be included in City contracts to protect both the City's and contractor's interests. Contracts such as the lease agreements we reviewed usually contain requirements for certain levels of insurance coverage (general liability, vehicle coverage, etc.). This coverage is documented in a certificate of insurance issued to the covered parties that includes the type of coverage and policy dates.

Approach

For each contract reviewed containing insurance requirements, we reviewed whether a current certificate of insurance was on file with the department detailing the coverages noted in the contract. We also sent certificates we located to Risk Management to verify if all requirements were met.

Results

See Table 1, page 7 for a summary of the results of the certificate of insurance search for each contract.

Improvements are needed at Economic Development to ensure that contractually required insurance coverage is active and documentation is maintained in files. Certificates were on file for the two leases monitored by Financial Services.

We audited six leases requiring certificates of insurance. Of the four leases monitored by Economic Development (recently transitioned from the Community Development Department), no certificates were found. There was no process in place to monitor the certificates and ensure that current annual certificates were received. Financial Services staff provided current, compliant certificates for the two leases reviewed that they monitored.

Recommendations

- 2.1 Economic Development staff implement a system to ensure that all certificates of insurance meet contract requirements, are tracked to ensure insurance has not expired, and supporting documentation is maintained. The City's CMS system can be used to monitor certificates and set reminders.
- 2.2 Economic Development request copies of the missing certificates of insurance and maintain them on file.

3 – Contract Database

Background

In 2018, the City purchased and installed Contract Insights, a contract management system, for about \$112,000 (hardware, software, and configuration). Ongoing licensing/maintenance fees cost about \$15,000 annually.

Approach

Upon initiation of our audit, we used the Contract Insights system (CMS) as a starting point to identify all or most revenue contracts. We compared contracts in the CMS system to the City Clerk's contract log and to contracts identified by searching the City's financial system (PeopleSoft) contract revenue accounts to verify if data within the CMS was complete (i.e., included all or most revenue contracts).

Results

Uniform use of the City's Contract Management System (CMS) citywide would help strengthen controls over contract management from execution and monitoring through renewal or termination. It would also promote contract management consistency when staff turnover occurs, or changes are made in contract monitoring responsibilities.

The City implemented an enterprise contract management system (CMS) in 2018 to provide the necessary tools and features to manage contracts from recognition of a need for an agreement through to renewal or termination. Its purpose was to support contract monitoring efforts and house all City contracts and supporting documentation in this system (excluding procurement contracts, employment contracts that are considered confidential or privileged, and Development Agreements that have not yet been executed).

After CMS training, it was anticipated that department staff across the City would ensure that all applicable contracts would be entered into Contract Insights. However, during this audit, we noted that the CMS is not consistently used by City department to enter and manage all contracts. We identified contracts on the City Clerk's log and through a search in PeopleSoft contract revenue accounts that are not included in the CMS.

For all contracts approved by City Council, the City Clerk's Office logs each contract and assigns it a unique number. The City Clerk is the official repository of original contract documents and ensures documents are sent to the County Recorder's Office when required. The CMS can supplement the official record by providing an electronic database to store all contracts, revisions, and supporting documentation that is also searchable. In addition, it provides the ability to set reminders for upcoming contract renewal periods or expiring insurance documents.

CMS can also help contract monitoring transitions when staff turnover occurs or responsibility for monitoring contracts is passed to another staff member or department. During our audit, the IAO noted that responsibility for monitoring five of the seven contracts being audited was transferred from Community Development to Economic Development and the two City staff primarily responsible for monitoring these contracts retired within weeks of each other causing issues with the transition of monitoring duties.

The IAO previously drafted a suggested framework for a citywide Contract Management policy. If implemented, it would require in part that all relevant contracts be entered into the Contract Insights system.

Recommendation

- 3.1 Financial Services implement a Contract Management policy citywide. This policy could become part of the portfolio of other citywide policies such as cash handling and accounts receivable.

Scope and Methods

Scope

We audited a total of seven revenue-generating contracts active at the time of this audit: six were leases and one was a sale of city land. The listing of contracts audited can be found in Table 1, page 7.

Methods

We used the following methods to complete this audit:

- Gathered all relevant data including contracts, certificates of insurance, and supporting documentation for lease calculations;
- Verified lease payment calculations complied with the contract terms, payments were collected, and payments were deposited into city accounts
- Reviewed certificates of insurance on file to ensure they complied with contract terms

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.