

CITY OF LAS VEGAS AUDIT OVERSIGHT COMMITTEE
City Hall, 400 Stewart Avenue
Las Vegas, Nevada 89101
City Manager Conference Room, Eighth Floor
City of Las Vegas Internet Address: www.lasvegasnevada.gov

AGENDA

July 16, 2009
10:00 AM

ALL ITEMS ON THIS AGENDA ARE SCHEDULED FOR ACTION UNLESS SPECIFICALLY NOTED OTHERWISE. UNLESS OTHERWISE STATED, ITEMS MAY BE TAKEN OUT OF THE ORDER PRESENTED AT THE DISCRETION OF THE CHAIRPERSON.

DUPLICATE AUDIO CDS MAY BE AVAILABLE AT A COST OF \$5.00 PER CD THROUGH THE CITY CLERK'S OFFICE.

1. CALL TO ORDER
2. ANNOUNCEMENT RE: COMPLIANCE WITH OPEN MEETING LAW
3. Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of April 23, 2009
4. General Report by the City Auditor
5. Discussion and possible action on the FY 2009-2010 Annual Audit Plan
6. Discussion and possible action on the Status of Recommendations on the Internal Control Reviews
7. Discussion and possible action on the status of returning funds to inmates
8. Discussion and possible action on the Audit of Professional Services Contract #070122 - Delphi Research of Nevada (3100-0809-07)
9. Discussion and possible action on the Audit of Professional Services Contract #060266 – Ostrovsky and Associates (3100-0809-08)
10. CITIZENS PARTICIPATION: Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come to the podium and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited
11. ADJOURNMENT

Facilities are provided throughout City Hall for the convenience of disabled persons. Special equipment for the hearing impaired is available for use at meetings. If you need an accommodation to attend and participate in this meeting, please call the City Clerk's office at 229-6311 and advise of your need at least 48 hours in advance of the meeting. The City's TDD number is 386-9108.

THIS MEETING HAS BEEN PROPERLY NOTICED AND POSTED AT THE FOLLOWING LOCATIONS:

City Clerk's Bulletin Board, City Hall Plaza, 2nd Floor Skybridge
Bulletin Board, City Hall Plaza (next door to Metro Records)
Las Vegas Library, 833 Las Vegas Boulevard North
Clark County Government Center, 500 S. Grand Central Parkway
Grant Sawyer Building, 555 E. Washington Avenue

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:
CALL TO ORDER



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:
ANNOUNCEMENT RE: COMPLIANCE WITH OPEN MEETING LAW



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:

Approval of the Final Minutes by reference of the Audit Oversight Committee Meeting of April 23, 2009



AGENDA SUMMARY PAGE

AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR'S OFFICE

DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

General Report by the City Auditor

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

To give a status report on the audits and projects in progress and open investigations and control reviews. The City Auditor's Office has audits, projects, investigations, and control reviews as assigned in the annual audit plan. At each of the Audit Oversight Committee Meetings the City Auditor reports on the status of work currently open.

RECOMMENDATION:

Report only; no action required.

BACKUP DOCUMENTATION:

None



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the FY 2009-2010 Annual Audit Plan

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

The City Auditor's Office audits from an annual audit plan. The plan identifies performance audits selected for the fiscal year. All entities within the organization will be audited on the basis of: 1) risk exposure based on risk analysis; and 2) a twelve year audit cycle. High risk entities are audited three times during the audit cycle, medium risk twice, and low risk once.

This plan allows for substitutions based on Mayor and Council or Audit Committee requests. The audit plan allows for computer assistance on audits, follow-ups, investigations, cash counts, and other miscellaneous activities. By approving this plan, the City Auditor's Office can initiate these audits without having to return to the Audit Committee to obtain authorization.

RECOMMENDATION:

The Committee should approve the proposed Audit Plan.

BACKUP DOCUMENTATION:

FY 2009-2010 Audit Plan

7/1/2009

FY 2009-2010
AUDIT PLAN

<u>DEPARTMENT</u>	<u>#</u>	<u>ENTITY</u>	<u>PRIORITY</u>	<u>HOURS</u>
City Manager	200	City Manager	3	200
City Clerk	220	Administration	1	375
Finance	600	Business Services	1	375
Finance	600	Purchasing and Contracts	1	375
Planning	700	Case and Public Planning Division	2	275
Municipal Court	1100	Administrative Services Division	1	375
Municipal Court	1100	Alternative Sentencing and Education Division	1	375
Municipal Court	1100	Courtroom Support Division	3	200
Fire & Rescue	1300	Support Services	1	375
Detention & Enforcement	1400	Support Services Division	1	375
Public Works	1500	City Engineer Division	2	275
Leisure Services	1600	Adaptive and Sports Division	1	375
Leisure Services	1600	Administration Division	3	200
Leisure Services	1600	Senior Citizen Programs Division	3	200
Field Operations	1700	Facilities Management Division	2	275
Field Operations	1700	Fleet and Transportation Services	1	375
Neighborhood Services	1800	Neighborhood Response	2	275
CITY WIDE	2000	Building Security	3	200
CITY WIDE	2000	Grant Administration	1	375
CITY WIDE	2000	Credit Card / Debit Card Handling	2	275
		MISCELLANEOUS ACTIVITIES		115
				6240

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the Status of Recommendations on the Internal Control Reviews

Fiscal Impact

No Impact Augmentation Required
 Budget Funds Available

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:

To report on the status of recommendations related to Internal Control Reviews

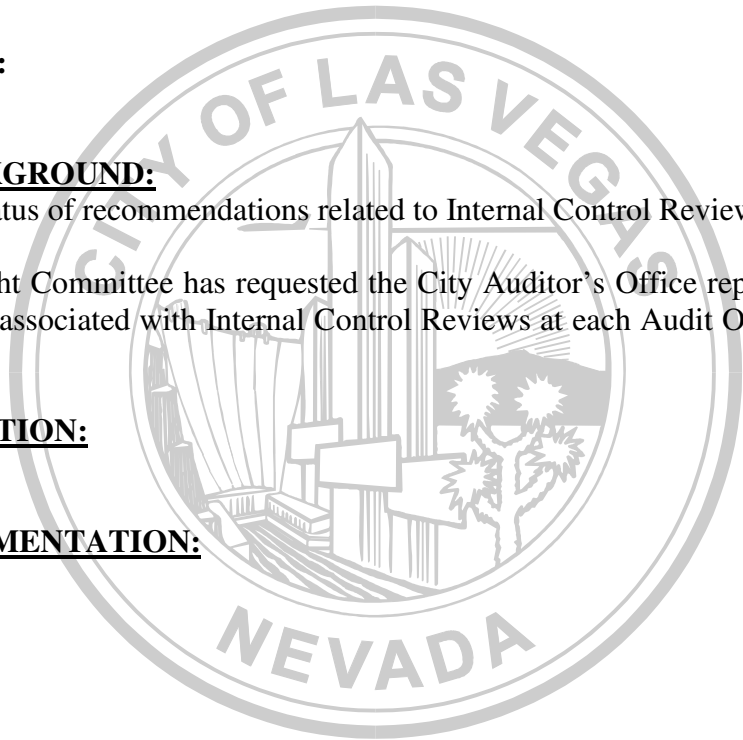
The Audit Oversight Committee has requested the City Auditor's Office report on the Status of Recommendations associated with Internal Control Reviews at each Audit Oversight Committee Meeting.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

None



AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR'S OFFICE
DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the status of returning funds to inmates

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

To report on the status of the method of returning funds to inmates

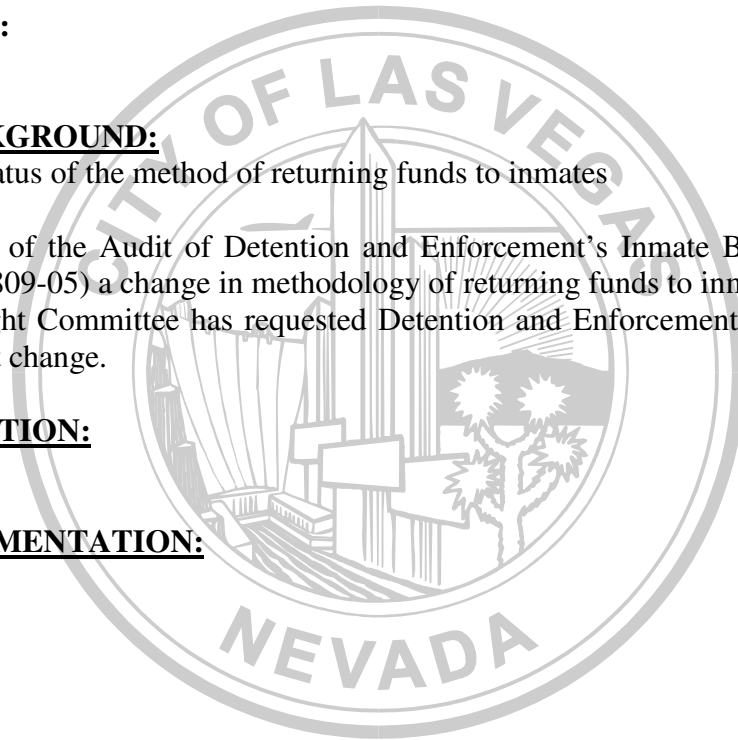
During the review of the Audit of Detention and Enforcement's Inmate Booking and Release Processes (1403-0809-05) a change in methodology of returning funds to inmates was in process. The Audit Oversight Committee has requested Detention and Enforcement provide a report on the progress of that change.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

None



AGENDA SUMMARY PAGE

AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR'S OFFICE

DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the Audit of Professional Services Contract #070122 - Delphi Research of Nevada (3100-0809-07)

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

To review the audit report Audit of Professional Services contract # 070122 – Delphi Research of Nevada (3100-0809-07)

The City Auditor’s Office has been randomly auditing professional services contracts approved on the City Council’s Consent Agenda. This contract is a three year firm-fixed price contract. Delphi Research is to design and implement a thirty-eight month evaluation to evaluate the effectiveness of the Batteries Included program components, at cost of \$157,056 from the general fund. Batteries Included, sponsored by the City of Las Vegas, Nevada Partners and the Clark County School District, offers a series of programs to improve high school graduation rates and to cultivate professional young leaders in the community.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Audit of Professional Services Contract #070122 - Delphi Research of Nevada (3100-0809-07)

CITY AUDITOR'S OFFICE



Audit of Professional Services Contract No. 070122 - Delphi Research of Nevada

Report No. CAO 3100-0809-07

May 14, 2009

**RADFORD K. SNELDING, CPA, CIA, CFE
CITY AUDITOR**

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Audit of Professional Services Contract No. 070122 - Delphi Research of Nevada CAO 3100-0809-07

BACKGROUND

The City Auditor's Office has completed an audit of the Professional Services Contract # 070211 with Delphi Research of Nevada. This contract was approved on the Consent Agenda at the September 5, 2007 City Council meeting. This contract is a three year firm-fixed price contract. This contract QRA was conducted during the contract term.

Batteries Included, sponsored by the City of Las Vegas, Nevada Partners and the Clark County School District, offers a series of programs to improve high school graduation rates and to cultivate professional young leaders in the community. Delphi Research is to design and implement a thirty-eight month evaluation to assess the effectiveness of the Batteries Included program components, at cost of \$157,056 from the general fund.

OBJECTIVES

The objectives of our review were to:

- Determine the Basis of Contract Award
- Review the Contract Preparation
- Review Contract Compliance
- Review Payments to Contractor
- Review Modifications and Change Orders
- Identify controls utilized in administration of this contract,
- Determine if controls were adequate and effective,

SCOPE AND METHODOLOGY

The scope of the audit was limited to the Professional Services Contract # 070211 with Delphi Research of Nevada.

The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit. Our last fieldwork date was July 15, 2008.

Our audit methodology included:

- Review of applicable policies and procedures,
- Examination of selected records,
- Review of selected transactions, and
- Interviews with selected employees.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no affect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

The following conclusions were noted:

- ***Determine the Basis of Award*** – NRS 332.115 allows an exemption from the competitive bidding requirement for Personal Services Contracts. This contract was not competitively bid. Requirements of Professional Services Policy FN609.1 were appropriately followed.
- ***Review the Contract Preparation*** – The contract was prepared in compliance with Professional Services Policy FN609.1 and R-48-2006.
- ***Review Contract Compliance (Finding 1)*** – The following non-compliance was noted:
 - Invoices did not include a purchase order number.
 - Invoices did not include the required certification by the contractor.
 - City of Las Vegas Project Manager was changed and not properly noticed.
 - The contractor did not have a City of Las Vegas Business License or a Nevada State Business License.
- ***Review Payments to Contractor*** – No exceptions were noted.
- ***Review Modifications and Change Orders*** – No modifications or change orders were utilized.
- ***Contract Monitoring Policy and Procedure (Finding 2)*** – No policies, procedures, or specific responsibilities are enumerated with regard to the administration of professional services contracts.
- ***Identify controls utilized in administration of this contract (Finding 3)*** – Control exceptions were noted in the following areas:
 - Basis of Award
 - No estimate was prepared prior to the solicitation.
 - The selected contractor was not investigated and the investigation documented as to credit history, business standing, and ability prior to awarding the contract.

- Management Controls
 - City of Las Vegas Management is not actively monitoring the contract.
 - One invoice did not have an approval.
 - Reports were not prepared by the project manager or City of Las Vegas employees to document contract performance.
 - A comprehensive Contract File was maintained in the user department to indicate the compliance with the contract.
 - No policies, procedures, or specific responsibilities are enumerated with regard to the administration of professional services contracts.
 - No checks of performance by an independent individual or group were performed.
- *Determine if controls were adequate and effective* – Control deficiencies are noted below.

Further information is contained in the following sections.

1. Contract Compliance

Criteria

The Contract should be performed in compliance with the specified terms and conditions to give assurance that the authorized performance is completed so as to give the City value for performance.

Condition

The following instances were noted as exceptions to compliance with the terms and conditions of the Contract:

- **Invoices did not include a purchase order number.** - Section B-5 of the contract requires "...The Company may submit invoices as deliverables are accomplished...All invoices should identify:...(iii) The associated purchase order number...".
- **Invoices did not include the required certification by the contractor.** - Section B-5 of the contract requires "...The Company may submit invoices as deliverables are accomplished...A representative of the Company shall sign and certify the invoice in the following manner: "I hereby certify, under penalty of perjury, that the above invoice is just and correct and that reimbursement for such expenses listed on the invoice has not been previously received from the City of Las Vegas nor any other source..."

- **City of Las Vegas Project Manager was changed and not properly noticed.** - Section D-2 of the contract identifies Diane Zammito as the City's Project Manager. Subsequently, Bill Tyler has become the principle point of contact for the City. The contract requires "...Each party will provide written notice in the event there is a subsequent change in the principal point of contact..."
- **The contractor did not have a City of Las Vegas Business License or a Nevada State Business License.** - Section D-4 of the contract requires "...During the entire performance period of this Contract, the Company shall maintain all federal, state, and local licenses and registrations applicable to the work performed under this Contract..." The contractor does not appear to qualify for an exemption to the requirement for a Nevada state business license.

Cause

Some specific terms of the Contract were not enforced by the Project Manager.

Effect

Relative assurance did not exist that all terms of the Contract were enforced.

Recommendation

Leisure Services management should advise the contractor, per the contract provisions, the following:

1. The contractor should include the purchase order number on all invoices.
2. The contractor should include the required certification on all invoices.
3. Obtain statements with the required certification to be attached to previous invoices.
4. The contractor should obtain the appropriate city and state business licenses and provide copies of the licenses to the project manager.
5. Leisure Services management should advise the contractor in compliance with the terms of the contract of any changes in the Project Manager.

2. Contract Monitoring Policy and Procedures

Criteria

Management controls over Professional Services activities should be communicated to all employees performing functions related to the acquisition and performance of the Professional Services contract. The policy and procedures should be written to give relative assurance to management that if the policy and procedure are followed; performance of the contract will meet the objectives and authorizations of management.

Condition

A comprehensive, written Contract Monitoring Policy and Procedure did not exist.

Cause

A contract monitoring policy or procedure had not been written.

Effect

Without a comprehensive, written policy and procedures:

- Specific responsibilities of employees may not be known.
- Standards of performance by the contractor may not be followed.

Recommendation

The City Manager should establish a comprehensive Contract Monitoring Policy and Procedure for the administration of personal services contracts to apply to all departments utilizing these contracts. The policies, procedures, and responsibilities should address at a minimum the following:

1. **Segregation of Duties or Incompatible Functions** – Duties related to the administration of the contract should be appropriately segregated.
2. **Qualified, Trained Personnel** – Personnel should be qualified and adequately trained to monitor the contract.
3. **Authorization** – All transactions are approved by an appropriate member of management.
4. **Records** – Records regarding the administration of this contract should be required and documented. These records should be sufficient, competent, relevant, and timely.
5. **Reporting** – Reports should be prepared on an appropriate basis so as to document the performance of the contract. There should be statement of opinion if the vendor is performing as originally intended.
6. **Control over Assets and Records** – Specific responsibilities and procedures regarding custody of assets (information) and records should be enumerated and followed.
7. **Independent Review** – Provision for a periodically independent review of performance of the contract and monitoring of the administration of the contract should be performed by an independent individual or group.
8. **Limited Access** – Access to information and records should be maintained and monitored.

3. Internal Control Exceptions

Criteria

Management controls over the administration of the contract should address all phases of procurement and administration over Professional Services contracts. Controls should be complete enough to give relative assurance that management's responsibilities to effectively administer the contract are being met.

Condition

We noted the following internal control exceptions that in our opinion would or could limit management's ability to effectively administer this contract.

- **No estimate was prepared prior to the solicitation.** - Prior to the awarding of a contract, an estimate of costs should be prepared to compare to the contractor's bid for reasonableness.
- **The selected contractor was not investigated and the investigation documented as to credit history, business standing, and ability prior to awarding the contract.** - The prospective contractor should be investigated as to credit history, business standing, and ability prior to awarding the contract. This investigation will document the belief that the prospective contractor can perform the proposed work in an acceptable manner.
- **City of Las Vegas Management is not actively monitoring the contract.** - City of Las Vegas in the form of the project manager or other designated employee should monitor the contract. This gives assurance that the service is being performed in accordance with the contract and in the best interest of the City of Las Vegas.
- **One invoice did not have an approval.** - All transactions should be authorized by an appropriate member of management only after contract performance is verified. Relative assurance should exist that all transactions are being handled in compliance with management's authorization. The authorizations should be documented and reviewed by an appropriate member of the authorizer's management.
- **Reports were not prepared by the project manager or City of Las Vegas employees to document contract performance.** - Reports should be prepared on an appropriate basis so as to document the performance of the contract. Key accountability reports should be prepared to inform management of any deficiencies so as to allow timely correction. Periodically, an independent member of management other than those directly involved should review reports. Discrepancies should be investigated and the investigation results should be documented.

- **A comprehensive Contract File must be maintained in the user department to indicate the compliance with the contract.** - Documents and records should be required. These documents and records should be sufficient, competent, relevant, and timely. They should support transactions, performance of the contract, and give a true picture of the operations. A Contract File should be maintained in the department using the contractor.
- **No policies, procedures, or specific responsibilities are enumerated with regard to the administration of personal services contracts.** - Specific responsibilities for the custody and handling of records, documents, and reports should be documented. Policies and procedures should be established to assign individual responsibility and accountability for performance of the contract.
- **No checks of performance by an independent individual or group were performed.** - Periodically independent checks on performance should be completed to verify compliance with policy, procedures, and authorization.

Cause

Internal controls did not exist to address these deficiencies.

Effect

Controls may not be adequate to protect the city.

Recommendation

The internal control exceptions are noted to provide assurances that the control issues are addressed currently and in all future contracts. The specific assignment of duties for assurances proposed are the responsibility of City of Las Vegas management, be it the City Manager, Finance and Business or the end user department.

Management should correct the following control exceptions:

1. Within a Contract File document why an estimate of the cost was not used and document the reasons why management believes the contract cost was reasonable.
2. Within a Contract File document the premise why an investigation of the credit history, business standing and ability was not done.
3. Assign a project manager, and subsequently notify the contractor of this change, for this contract that will actively monitor this contract and has enough expertise to evaluate compliance and value for cost to the city.
4. Attach written communication to be signed by an appropriate member of management authorizing payment of the invoice that lacked approval.

5. There should be citywide guidelines for the preparation of appropriate reports regarding quality of performance and value for cost of the actions by the contractor. These reports should be done on a periodic basis and should be filed in the Contract File. Any deficiencies should be noted so as to allow timely correction. The reports should be sufficient, competent, relevant, and timely documenting a true picture of the operations of this contract.
6. A Contract File, with specific requirements should be included in the user department (this case Leisure Services) that includes all documents or copies of all documents related to the performance of this contract. Up to the time of audit the user departments are left on their own as to what should be included in that file.
7. Make arrangements to have a group or individual to make periodic independent checks on performance to verify compliance with policy, procedures, and authorization. These checks should be documented and deficiencies should be timely corrected with details included in the Contract File.

Leisure Services is the end user of this contract, therefore they are being requested for audit responses even if the issues have to be addressed on a citywide basis.

Management Response

1. Contract Compliance

Recommendation:

Leisure Services management should advise the contractor, per the contract provisions, the following:

1. The contractor should include the purchase order number on all invoices.
2. The contractor should include the required certification on all invoices.
3. Obtain statements with the required certification to be attached to previous invoices.
4. The contractor should obtain the appropriate city and state business licenses and provide copies of the licenses to the project manager.
5. Leisure Services management should advise the contractor in compliance with the terms of the contract of any changes in the Project Manager.

Management Action Plan:

1. Met with Contractor on January 29th and Contractor will include PO number on all invoices.
2. Met with Contractor on January 29th and Contractor will add the required certification statement on all invoices.
3. Met with Contractor on January 29th and contractor will attach certification statement to previous invoices.
4. Met with contractor on January 29th and the contractor provided a Nevada State Business Licenses (filed) and has committed to securing a City of Las Vegas business licenses.
5. Meet with Contractor and inform him officially of Project Manager change.

Estimated Date of Completion January 29th, 2009

2. Contract Monitoring Policy and Procedures

Recommendation:

The City Manager should establish a comprehensive Contract Monitoring Policy and Procedure for the administration of personal services contracts to apply to all departments utilizing these contracts. The policies, procedures, and responsibilities should address at a minimum the following:

1. **Segregation of Duties or Incompatible Functions** – Duties related to the administration of the contract should be appropriately segregated.
2. **Qualified, Trained Personnel** – Personnel should be qualified and adequately trained to monitor the contract.
3. **Authorization** – All transactions are approved by an appropriate member of management.
4. **Records** – Records regarding the administration of this contract should be required and documented. These records should be sufficient, competent, relevant, and timely.
5. **Reporting** – Reports should be prepared on an appropriate basis so as to document the performance of the contract. There should be statement of opinion if the vendor is performing as originally intended.
6. **Control over Assets and Records** – Specific responsibilities and procedures regarding custody of assets (information) and records should be enumerated and followed.
7. **Independent Review** – Provision for a periodically independent review of performance of the contract and monitoring of the administration of the contract should be performed by an independent individual or group.
8. **Limited Access** – Access to information and records should be maintained and monitored.

Management Action Plan:

In response to your November 24, 2008, review of "Draft ICR 042, ICR 048 and QRA 3100-001 -- Delphi Research" recommendation number 3 to establish a comprehensive Contract Monitoring Policy and Procedures for administration of personal services contracts to apply to all departments utilizing these contracts. Staff has been assigned to draft policies and procedures that will include, but not be limited to cover, the eight areas outlined in your recommendations. The draft will be forwarded to you for your review and comment prior to forwarding to all Department Directors for feedback and implementation. The development of compensative policy and procedures guidelines requires many steps for proper development. Therefore the City Manager Office has set a target date of December 31, 2009 for development and implementation. There will also be a developed and piloted contract administration class and trained Purchasing & Contracts staff on aspects of the policy that will change purchasing processes and procedures.

Estimated Date of Completion December 31st, 2009

3. Internal Control Exceptions

Recommendation:

The internal control exceptions are noted to provide assurances that the control issues are addressed currently and in all future contracts. The specific assignment of duties for assurances proposed are the responsibility of City of Las Vegas management, be it the City Manager, Finance and Business or the end user department.

Management should correct the following control exceptions:

1. Within a Contract File document why an estimate of the cost was not used and document the reasons why management believes the contract cost was reasonable.
2. Within a Contract File document the premise why an investigation of the credit history, business standing and ability was not done.
3. Assign a project manager, and subsequently notify the contractor of this change, for this contract that will actively monitor this contract and has enough expertise to evaluate compliance and value for cost to the city.
4. Attach written communication to be signed by an appropriate member of management authorizing payment of the invoice that lacked approval.
5. There should be citywide guidelines for the preparation of appropriate reports regarding quality of performance and value for cost of the actions by the contractor. These reports should be done on a periodic basis and should be filed in the Contract File. Any deficiencies should be noted so as to allow timely correction. The reports should be sufficient, competent, relevant, and timely documenting a true picture of the operations of this contract.
6. A Contract File, with specific requirements should be included in the user department (this case Leisure Services) that includes all documents or copies of all documents related to the performance of this contract. Up to the time of audit the user departments are left on their own as to what should be included in that file.
7. Make arrangements to have a group or individual to make periodic independent checks on performance to verify compliance with policy, procedures, and authorization. These checks should be documented and deficiencies should be timely corrected with details included in the Contract File.

Leisure Services is the end user of this contract, therefore they are being requested for audit responses even if the issues have to be addressed on a citywide basis.

Management Action Plan:

1. Documentation is included in the contract, "Proposal to develop and implement and evaluation of the Batteries Included Initiative. It includes costs, project timelines and deliverables. A statement of a recommendation from City of Las Vegas Neighborhood Services department is in the Project Manager file titled "Delphi Contract".
2. Leisure believes this task should be conducted by purchasing or Business and License department.
3. Project Manager has been assigned and has contacted and advised the Contractor of change as of January 2009.
4. An email was filed in the leisure services finance office from the project manager authorizing payment. (See attached email in file). However, an affidavit/statement is signed and attached to invoice dated December 3, 2008.
5. A report itemizing the contract requirements has been developed listing what is expected for year one, mid year, year two, mid year and year three and mid year progress reports along with specific, meeting agendas, Gantt charts and logic models. Document has been placed in the project manager's contract file.
6. This file currently exists in leisure in the project manager's office.
7. Leisure will implement a team process of evaluation. This team will consist of members of each division of leisure services that will provide quality control and compliance with established guidelines from the City Management.

Estimated Date of Completion January 29th 2009 (exception #7, that will be implemented by March 1st, 2009)

AGENDA SUMMARY PAGE

AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR'S OFFICE

DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

Discussion and possible action on the Audit of Professional Services Contract #060266 – Ostrovsky and Associates (3100-0809-08)

Fiscal Impact

No Impact

Augmentation Required

Budget Funds Available

Amount:

Funding Source:

Dept./Division:

PURPOSE/BACKGROUND:

To review the audit report Audit of Professional Services Contract #060266 – Ostrovsky and Associates (3100-0809-08)

The City Auditor’s Office has been randomly auditing professional services contracts approved on the City Council’s Consent Agenda. This contract was originally an 18 month firm-fixed price contract, extended by 24 months through Modification 1, for a total of 42 months. Ostrovsky & Associates provides the City of Las Vegas with technical assistance and legislative advocacy for State legislative matters. The total cost of the contract, including the two Modifications, is \$469,500 for service from July 1, 2006 to December 31, 2009. This contract is administered by the Director of Administrative Services.

RECOMMENDATION:

Approval

BACKUP DOCUMENTATION:

Audit of Professional Services Contract #060266 -- Ostrovsky and Associates (3100-0809-08)

CITY AUDITOR'S OFFICE



Audit of Professional Services Contract No. 060266 - Ostrovsky & Associates

Report No. CAO 3100-0809-08

May 14, 2009

**RADFORD K. SNELDING, CPA, CIA, CFE
CITY AUDITOR**

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Audit of Professional Services Contract No. 060266 - Ostrovsky & Associates CAO 3100-0809-08

BACKGROUND

The City Auditor's Office has completed an audit of the Professional Services Contract No. 060266 (Contract) with Ostrovsky & Associates (Contractor). The Contract was approved on the Consent Agenda at the June 21, 2006 meeting of the City Council and subsequently modified on January 9, 2008 to increase the performance period. A second modification was also added on April 28, 2008 to change the language concerning the conflict of interest clause. The Contract was originally an 18 month firm-fixed price contract, extended by 24 months through Modification 1, for a total of 42 months. This audit was conducted during the Contract term.

Ostrovsky & Associates provides the City of Las Vegas (City) with technical assistance and legislative advocacy for State legislative matters. The total cost of the contract, including the two Modifications, is \$469,500 for service from July 1, 2006 to December 31, 2009. This contract is administered by the Director of Administrative Services (Contract Manager).

OBJECTIVES

The objectives of our review were to:

- Determine the Basis of Contract Award
- Review the Contract Preparation
- Review Contract Compliance
- Review Payments to Contractor
- Review Modifications and Change Orders
- Review adequacy and effectiveness of Contract Administration Controls

SCOPE AND METHODOLOGY

The scope of the audit was limited to the Professional Services Contract # 060266 with Ostrovsky & Associates.

The scope of our work on internal control was limited to the controls within the context of the audit objectives and the scope of the audit. Our last fieldwork date was February 12, 2009.

Our audit methodology included:

- Review of applicable policies and procedures,
- Examination of selected records,
- Review of selected transactions, and
- Interviews with selected employees.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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.

The exception to full compliance is because the City Auditor's Office has not yet undergone an external peer review. However, this exception has no affect on the audit or the assurances provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

The following conclusions were noted:

- ***Basis of Contract Award*** – NRS 332.115 allows an exemption from the competitive bidding requirement for personal services contracts. This contract was not competitively bid. Requirements of Professional Services Policy FN609.1 were appropriately followed.
- ***Contract Preparation*** – The contract was prepared in compliance with Professional Services Policy FN609.1 and R-48-2006. The Administrative Services Director appropriately provided input on the preparation of this contract.
- ***Contract Compliance (Finding 1)*** – The following non-compliance was noted:
 - Not all invoices included sufficient supporting data for “Other Expenses”.
 - Invoices were sent and payment was requested for services not yet performed.
 - Status reports were not provided by the Contractor.
 - Required insurance could not be verified.
- ***Payments to Contractor*** – Except for the prepayment exception noted in the Review Contract Compliance section above, no exceptions were noted.
- ***Modifications and Change Orders*** – Two modifications and no change orders were observed. Both Modifications were appropriately authorized and justified.
- ***Adequacy and Effectiveness of Contract Administration Control*** – The following was noted.
 - A comprehensive, written Contract Monitoring Policy and Procedure did not exist. (***Finding 2***)

- Management control exceptions were noted in the following areas (*Finding 3*):
 - No documented analyses of the Contractor's performance were prepared.
 - A checklist was not utilized in the project management file.
 - Because of limited personnel, concerns exist with the adequacy of segregation of duties and incompatible functions.
 - No status reports were provided by the Contractor or requested by the Project Manager.
 - Procedures and responsibilities were not documented.
 - Performance and contract monitoring activities were not periodically and independently reviewed.

Further information is contained in the following sections.

1. Contract Compliance

Criteria

The Contract should be performed in compliance with the specified terms and conditions to give assurance that the authorized performance is completed so as to give the City value for performance.

Condition

The following instances were noted as exceptions to compliance with the terms and conditions of the Contract:

- **Not all invoices included sufficient supporting documentation for "Other Expenses".** Section B-4(b) states "...Other expenses specifically excluded from reimbursement are:...routine meals...not solely for the benefit of the City of Las Vegas..." Supporting documentation for some meals was insufficient to provide evidence that the expenses were not "routine meals" and were "for the benefit of the City". Certain supporting documentation did not clearly identify who participated and the purpose of the meeting.
- **Invoices were sent and payment was requested for services not yet performed.** Section B-6(a) states the Contractor should "...submit invoices to the City by the twentieth (20th) of each month for the previous month's charges for services provided to the City..." Invoices were sent for the month prior to completion of services. The effect is the City was billed in advance.
- **Status Reports were not provided by the Contractor.** Section B-6 (d) states "...the Company shall submit a status report with the monthly invoice to the

Project Manager to inform the City on the Company's activities related to this Contract..." The Project Manager stated no reports had been provided.

- **Required insurance could not be verified.** Section E-5 (d) "...Certificates indicating that such insurance is in effect shall be delivered to the City within ten (10) days after the award date...The company shall maintain coverage for the duration of this Contract..." A Certificate of Insurance for the Contractor could not be located. No evidence could be found as to whether or not the Contractor had the insurance prescribed by the Contract. Subsequent to our review of the contract folder on February 3, 2009, insurance documents were sent to Purchasing and Contracts to document liability and workers compensation insurance. However, considering the effective date, the liability insurance is effective as of February 12, 2009 and no prior insurance documents were located, it appears the required insurance was not in effect.

Cause

Some specific terms of the Contract were not enforced by the Project Manager.

Effect

Relative assurance did not exist that the Contract was performed in compliance with all terms.

Recommendation

The Administrative Services should:

1. Require expenses billed under the "Other Expenses" category include sufficient supporting documentation for verification that the expenditures are not "routine meals" and are "for the benefit of the City". This supporting documentation should identify the participants and more fully explain the nature of the meeting.
2. Require invoices be sent and payment be requested after service is performed.
3. Require a status report be submitted with the monthly bill recapping the Contractor's activities related to the Contract. The status report should be detailed enough to allow the Project Manager to determine the relative value of the Contractor performance.
4. Require noted insurance be in force at all times during the contract and a copy of the Certificate(s) of Insurance be provided to the City.

2. Contract Monitoring Policy and Procedures

Criteria

Management controls over Professional Services activities should be communicated to all employees performing functions related to the acquisition and performance of the Professional Services contract. The policy and procedures should be written to give relative assurance to management that if the policy and procedures are followed, contract performance will meet the objectives and authorizations of management.

Condition

A comprehensive, written contract monitoring policy and procedure does not exist.

Cause

A contract monitoring policy or procedure has not been written.

Effect

Without a comprehensive written contract monitoring policy and procedures:

- Specific responsibilities of employees may not be known.
- Standards of performance by the Contractor may not be followed.

Recommendation

The City Manager should establish a comprehensive contract monitoring policy and procedure for the administration of professional services contracts to apply to all departments utilizing these contracts. The policies, procedures, and responsibilities should address at a minimum the following:

1. **Segregation of Duties or Incompatible Functions** – Duties related to the administration of the contract should be appropriately segregated.
2. **Qualified, Trained Personnel** – Personnel should be qualified and adequately trained to monitor the contract.
3. **Authorization** – All transactions are approved by an appropriate member of management.
4. **Records** – Records regarding the administration of this contract should be required and documented. These records should be sufficient, competent, relevant, and timely.

5. **Reporting** – Reports should be prepared on an appropriate basis so as to document the performance of the contract. There should be statement of opinion if the vendor is performing as originally intended.
6. **Control over Assets and Records** – Specific responsibilities and procedures regarding custody of assets (information) and records should be enumerated and followed.
7. **Independent Review** – Provision for a periodically independent review of performance of the contract and monitoring of the administration of the contract should be performed by an independent individual or group.
8. **Limited Access** – Access to information and records should be maintained and monitored.

AUDITOR’S NOTE: (This is the same recommendation previously made to the City Managers Office. The Purchasing and Contracts staff is currently working on this procedure. The estimated date of completion is December 31, 2009.)

3. Management Control Exceptions

Criteria

Management controls over the administration of the contract should address all phases of procurement and administration over Professional Services contracts. Controls should give relative assurance that management’s responsibilities are being met.

Condition

We noted the following internal control exceptions that in our opinion would or could limit management’s ability to effectively administer this contract.

- No documented analyses of the Contractor’s performance were prepared.
- A checklist was not included within the Contract File to document in a summary fashion the contents of the file.
- Because of limited personnel involved in the oversight of the Contract, concerns exist with the adequacy of segregation of duties and incompatible functions. The Project Manager was solely responsible for authorizing payment and evaluation of contract performance.
- No status reports were provided by the Contractor or requested by the Project Manager.
- Contract performance and contract monitoring activities were not periodically and independently reviewed.

Cause

Management controls do not exist to address these deficiencies.

Effect

Controls are inadequate to protect the city.

Recommendation

Administrative Services management should implement the following control controls:

1. Prepare reports on an appropriate basis to document the Contractor's performance. These reports should timely inform management of any performance deficiencies so as to allow correction.
2. Include a checklist within the Contract File to document in a summary fashion the contents of the file.
3. Devise and document enhanced controls to compensate for weaknesses in segregation of duties and incompatible functions. (e.g. additional reviews by independent parties).
4. Require the Contractor to provide status reports with each monthly billing.
5. Require performance and contract monitoring activities be periodically and independently reviewed. Any discrepancies should be investigated and the investigation should be documented.

Management Response

1. Contract Compliance

Recommendation

Administrative Services should:

1. Require expenses billed under the "Other Expenses" category include sufficient supporting documentation for verification that the expenditures are not "routine meals" and are "for the benefit of the City". This supporting documentation should identify the participants and more fully explain the nature of the meeting.
2. Require invoices be sent and payment be requested after service is performed.
3. Require a status report be submitted with the monthly bill recapping the Contractor's activities related to the Contract. The status report should be detailed enough to allow the Project Manager to determine the relative value of the Contractor performance.
4. Require noted insurance be in force at all times during the contract and a copy of the Certificate(s) of Insurance be provided to the City.

Management Action Plan:

1. Prior to payment, all "other or miscellaneous expenses" will be reviewed by the contract manager to ensure that sufficient supporting documentation has been submitted. No payment for these expenses will be authorized without the appropriate documentation.
2. All invoices will be paid after services are rendered.
3. The contractor will be required to provide, with the invoice for payment, a report that contains a list of meetings with: state legislators, state/local agencies, businesses, lobbyists, and others that the contractor worked with on behalf of the CLV including correspondence/meetings with CLV management and personnel.
4. The contract manager will work with the Purchasing and Contracts Division to ensure that all required insurance is received prior to extending or renegotiating the contract.
5. The contract manager will include language in the contract that requires "Any expense other than travel that is expected to exceed \$500 in a reporting period must be requested in writing to the project manager. The invoice for the expense must be accompanied by the written or emailed approval from the project manager in order for reimbursement."

Estimated Date of Completion

The action plan items will be implemented immediately. The contract modification should be complete by July 1,

2. Contract Monitoring Policy and Procedures

Recommendation

The City Manager should establish a comprehensive contract monitoring policy and procedure for the administration of professional services contracts to apply to all departments utilizing these contracts. The policies, procedures, and responsibilities should address at a minimum the following:

1. **Segregation of Duties or Incompatible Functions** – Duties related to the administration of the contract should be appropriately segregated.
2. **Qualified, Trained Personnel** – Personnel should be qualified and adequately trained to monitor the contract.
3. **Authorization** – All transactions are approved by an appropriate member of management.
4. **Records** – Records regarding the administration of this contract should be required and documented. These records should be sufficient, competent, relevant, and timely.
5. **Reporting** – Reports should be prepared on an appropriate basis so as to document the performance of the contract. There should be statement of opinion if the vendor is performing as originally intended.
6. **Control over Assets and Records** – Specific responsibilities and procedures regarding custody of assets (information) and records should be enumerated and followed.
7. **Independent Review** – Provision for a periodically independent review of performance of the contract and monitoring of the administration of the contract should be performed by an independent individual or group.
8. **Limited Access** – Access to information and records should be maintained and monitored.

AUDITOR'S NOTE: (This is the same recommendation previously made to the City Managers Office. The Purchasing and Contracts staff is currently working on this procedure. The estimated date of completion is December 31, 2009.)

Management Action Plan:

In response to your November 24, 2008, review of "Draft ICR 042, ICR 048 and QRA 3100-001 -- Delphi Research" recommendation number 3 to establish a comprehensive Contract Monitoring Policy and Procedures for administration of

personal services contracts to apply to all departments utilizing these contracts. Staff has been assigned to draft policies and procedures that will include, but not be limited to cover, the eight areas outlined in your recommendations. The draft will be forwarded to you for your review and comment prior to forwarding to all Department Directors for feedback and implementation. The development of compensative policy and procedures guidelines requires many steps for proper development. Therefore the City Manager Office has set a target date of December 31, 2009 for development and implementation. There will also be a developed and piloted contract administration class and trained Purchasing & Contracts staff on aspects of the policy that will change purchasing processes and procedures.

Estimated Date of Completion December 31st, 2009

3. Management Control Exceptions

Recommendation

Administrative Services management should implement the following control controls:

1. Prepare reports on an appropriate basis to document the Contractor's performance. These reports should timely inform management of any performance deficiencies so as to allow correction.
2. Include a checklist within the Contract File to document in a summary fashion the contents of the file.
3. Devise and document enhanced controls to compensate for weaknesses in segregation of duties and incompatible functions. (e.g. additional reviews by independent parties).
4. Require the Contractor to provide status reports with each monthly billing.
5. Require performance and contract monitoring activities be periodically and independently reviewed. Any discrepancies should be investigated and the investigation should be documented.

Management Action Plan:

1. An annual report will be presented to the City Manager on the impact of the contractor.
2. A checklist will be kept within the Contract File to document the contents of the file.
3. The payments will be processed by the Administrative Secretary and reviewed and approved by the Director of Administrative Services in accordance with the policies developed by the Purchasing Division.

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4. The contractor will be required to provide, with the invoice for payment, a report that contains a list of meetings with: state legislators, state/local agencies, businesses, lobbyists, and others that the contractor worked with on behalf of the CLV including correspondence/meetings with CLV management and personnel.
5. Based on reports provided and regular communication by and between the contract manager and the contractor, the contract manager will investigate any actions that are not compliant with the contract and will follow-up with the appropriate actions.

Estimated Date of Completion

The action plan items will be implemented immediately.

AGENDA SUMMARY PAGE
AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR
DIRECTOR: RADFORD SNELDING

SUBJECT:

CITIZENS PARTICIPATION: Public comment during this portion of the agenda must be limited to matters within the jurisdiction of the Committee. No subject may be acted upon by the Committee unless that subject is on the agenda and is scheduled for action. If you wish to be heard, come to the podium and give your name for the record. The amount of discussion on any single subject, as well as the amount of time any single speaker is allowed, may be limited



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AUDIT OVERSIGHT COMMITTEE MEETING OF: JULY 16, 2009

DEPARTMENT: CITY AUDITOR

DIRECTOR: RADFORD SNELDING

Consent Discussion

SUBJECT:

ADJOURNMENT

