Office of Internal Audit

Performance Audit 21-03: Information Technology Staffing Contract

May 2021

City Auditor
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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

May 5, 2021

To: Mayor Tim Kelly
        City Council Members

RE: Information Technology Staffing Contract Audit (Report #21-03)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of the staffing contract between the Department of Information Technology (DIT) and BG Staffing. Our findings concluded that the City's procurement of the staffing contract complied with applicable state law and City purchasing guidelines. However, we identified key opportunities to strengthen the internal control procedures governing the ongoing administration of the contract.

To address the opportunities for improvement, we recommended the DIT design and implement written policies and procedures for contract management, monitor contract performance through key performance indicators, and evaluate the job performance of contracted personnel at regular intervals.

We would like to take this opportunity to thank DIT management and staff for their courtesy, cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
        Brent Goldberg, Chief of Staff
        Vickie Haley, Purchasing Director
        D. Brent Messer, Chief Information Officer
        James Cutcliff, DIT Fiscal Analyst
        Jim Arnette, Tennessee Local Government Audit

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2021 Audit Agenda. The objectives of our audit were to determine: (1) if the procurement of the staffing contract between the Department of Information Technology (DIT) and BG Staffing complied with Tennessee law and City purchasing guidelines; and (2) whether the ongoing management of the contract aligns with internal control procedures and best practices for contract administration.

BACKGROUND

The DIT provides technology-related services to all City departments and agencies, including strategic planning, project management, business analysis, implementation, maintenance, and information security. DIT operations consist of the following divisions:

1) *Administration*. The Administration division is responsible for the day-to-day operations, including finances, budgeting, and strategic planning.
2) *Development and Innovation*. The Development and Innovation division oversees applications management, systems and software engineering, and web development.
3) *Infrastructure and Networking*. The Infrastructure and Networking division manages systems deployment and maintenance, network engineering, and infrastructure.
4) *Project Management*. The Project Management division governs the DIT project portfolio, provides general project management, and delivers technology-related business analysis for the City.
5) *Service Desk and Operations*. The Service Desk and Operations division provides front-line technical support, handling all service requests and citywide deployments of technology and equipment.

To expand DIT resources and support the DIT workload and project portfolio, the City procured a blanket contract with BG Staffing (f/k/a Zycron Inc.) to acquire professional services ranging from help desk technicians to network engineers. In the calendar year ended December 31, 2020, the DIT retained eight (8) contractors supporting citywide DIT functions and spent $818,910 on contract labor.

The scope of our audit focused on the management of the staffing contract. Contract management is essentially a two-stage process. The first stage is procurement, which includes activities associated with identifying the need for a contract, understanding the process and requirements for procuring the needed services, selecting a vendor, and negotiating a contract. The second stage is contract monitoring.

Contract monitoring is a key function of contract management that helps: (1) ensure the vendor is performing all functions and obligations in accordance with the terms of the contract; and (2) identify and quickly address any developing problems or issues. Our audit examined the contract management activities at both stages of the contract management process.

Financial Information

Exhibit 1.

DIT Contract Labor	CY2018	CY2019	CY2020
Expenditures	$641,170	$554,945	$818,910

FINDINGS AND RECOMMENDATIONS

Procurement of the staffing contract complied with state law requirements and City purchasing guidelines

Tenn. Code § 12-3-1209(e)(1) governs the procurement of contracts for information management services by local governments:

> "Contracts by counties, cities, metropolitan governments, towns, utility districts and other municipal and public corporations of the state for information management services, including, but not limited to, computer program analyst services *shall* [emphasis added], upon approval by a two-thirds (⅔) vote of the governing body, be procured through a request for proposals process. The request for proposals process will invite prospective respondents to participate and will indicate the service requirements and the factors used for evaluating the proposals. Such factors shall include cost, the vendor's qualifications and any additional factor or factors deemed relevant by the procuring entity for the procurement of the service. Cost shall not be the sole criterion for evaluation. The contract for such services will be awarded to the best-evaluated, responsive respondent."

As required by Tennessee law, the City procured the staffing contract through a request for proposals (RFP) process. The City provided adequate public notice of the RFP, including the service requirements and factors for evaluating proposals. The City's Purchasing Evaluation Committee (Committee) individually evaluated each vendor proposal submitted. Cost and vendor qualifications were significant factors in the Committee's evaluation, but not the only criteria. BG Staffing ultimately received the highest and best evaluation by the Committee.[1]

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[1] The Chattanooga City Council voted unanimously to extend the DIT staffing contract through May 28, 2021.

Failure to comply with contract procurement requirements can result in the disqualification of qualified vendors and places the integrity of the City's business practices at risk. Based on the results of our audit, we concluded that the procurement of the staffing contract complied with state law requirements and City purchasing guidelines.

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Opportunities to strengthen internal control activities for ongoing contract management and monitoring

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Tenn. Code § 9-18-102(a) requires local governments to establish and maintain internal controls. Internal controls are the actions management establishes through policies and procedures to achieve objectives and manage risks. In accordance with state law and Tennessee Comptroller directives, the City developed and implemented an internal control manual based on guidelines issued by the United States Government Accountability Office (GAO).[2]

Implement internal control activities through policies and procedures

The City's Internal Control Manual (ICM) instructs each department to design and implement internal control activities through policies and procedures. DIT management has formalized its policies and procedures and made them available in electronic format to all DIT employees and contractors. However, DIT policies and procedures do not specifically address the internal control procedures required for contract management and monitoring. Our analysis of best practices for state and local governments confirms that internal control procedures are essential for effective contract management.[3] Without internal control procedures to ensure proper administration and oversight of DIT contracts, the DIT is at increased risk for contract nonconformance.

Recommendation 1: We recommend the DIT design and implement internal control activities for contract management and monitoring through written policies and procedures.

Auditee Response: We agree with the audit finding and recommendation. We are currently in the process of developing written policies and procedures for contract management and monitoring.

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[2] Standards for Internal Control in the Federal Government, GAO-14-704G, published September 2014.

[3] National Association of State Procurement Officials (NASPO) Contract Administration Best Practices Guide, accessed March 2021, https://www.naspo.org/wp-content/uploads/2020/07/NASPO- Contract_Administration_Best_Practices_Guide-f.pdf

Monitor contract performance

Monitoring contract performance is a key function of the contract management process. Performance monitoring helps ensure that all involved parties are performing their duties in accordance with the terms of the contract. Our analysis of best practices for contract administration confirms that key performance indicators, or *KPIs*, are essential for measuring and monitoring contract performance.[4] Although DIT management conducts regular check-in meetings with vendor representatives as a means to monitor contract performance, the DIT does not measure contract performance against any normative KPIs or performance metrics.

Recommendation 2: We recommend the DIT design and implement KPIs and performance metrics to monitor and improve contract performance and vendor accountability. We also recommend the DIT incorporate the standards for monitoring contract performance into its written policies and procedures.

Auditee Response: We agree with the audit finding and recommendation.

Additionally, the DIT has not implemented a formal process to evaluate the individual job performance of its contractors. Our analysis of best practices for contract administration confirms that monitoring and evaluating the job performance of contractors helps avoid project delays, loss of service, and increased costs that may result from poor job performance.[5]

Recommendation 3: We recommend the DIT develop and implement a process for evaluating the job performance of its contractors at regular intervals. Performance appraisals should be supported with documentation and shared with the vendor as appropriate. We also recommend the DIT incorporate the performance evaluation process into its written policies and procedures.

Auditee Response: We agree with the audit finding and recommendation.

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[4] Reciprocity, Inc., Important KPIs for Successful Vendor Management, accessed March 2021, https://reciprocitylabs.com/kpis-for-evaluating-your-vendor-management-program/

[5] National Association of State Procurement Officials (NASPO) Contract Administration Best Practices Guide, accessed March 2021, https://www.naspo.org/wp-content/uploads/2020/07/NASPO- Contract_Administration_Best_Practices_Guide-f.pdf

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and our assessment of risk, the audit covers the management of DIT staffing contracts from April 1, 2020 to December 31, 2020. When appropriate, we expanded our scope to meet the audit objectives. We relied on computer-generated reports and other information obtained from the Oracle system to conduct our audit. We determined the data from the Oracle system was sufficiently reliable for the purposes of our audit.

To develop our audit recommendations, we examined evidence on a test basis and applied other procedures necessary to meet the audit objectives. These procedures included:

- Reviewing relevant laws, citywide policies and procedures, and departmental policies and procedures;
- Evaluating the City's process for procuring contracts for information management services;
- Reviewing the DIT staffing contract terms, conditions, scope of work and deliverables;
- Reviewing vendor invoices, supporting documentation and payment information from the Oracle system;
- Reviewing best practices related to contract administration, risk management and performance monitoring;
- Conducting a risk assessment to identify high-risk activities and potential fraud risks;
- Interviewing City staff responsible for contract administration;
- Assessing the City's internal control framework for contract management.

We used non-statistical sampling to determine the sample size and selection of the information we tested. Non-statistical sampling is the selection of a test group based on the auditor's judgment, rather than a formal statistical method. To determine the appropriate sample size, we considered sampling risk and the extent to which errors were expected. Sampling risk arises from the possibility that a conclusion may be different from the conclusion reached by subjecting the entire population to the same testing procedures. We did not extrapolate the results of our testing to draw conclusions on the population as a whole.

We conducted this performance audit from February 2021 to April 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our audit findings and conclusions.

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