



**Request for City Council Committee Action  
From the Department of  
City Coordinator**

**Date:** May 17, 2007

**To:** Paul Ostrow, Chair  
Ways and Means/Budget Committee

**Submitted by:** Jayne Baccus Khalifa, Deputy City Coordinator, Chair,  
Permanent Review Committee\_\_\_\_\_

**Approved by:** Steven Bosacker, City Coordinator \_\_\_\_\_

**Subject:** PRC Contract Monitoring Recommendations

**Recommendation:**

The PRC recommends adoption of the contract monitoring best practices as outlined in the attached report. Further the PRC recommends that the City Coordinator be directed to conduct a thorough study of best practices for the internal audit function in the City of Minneapolis. This study should include a cost analysis of any recommended changes to the current process.

**Financial Impact** (Check those that apply)

- No financial impact (If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): Cost savings as outlined below.
- Request provided to the Budget Office when provided to the Committee Coordinator

## Background/Supporting Information

### Permanent Review Committee Contract Monitoring Recommendations

The Permanent Review Committee (PRC) was directed by the Ways and Means Committee to review the findings of the Excipio Report on the contract between the City of Minneapolis BIS department and Unisys and to develop a list of best practices for City contract administration. The committee members have reviewed the Excipio report recommendations individually and collectively. We have also reviewed “best practices” literature on effective procurement systems.

The two key factors identified as paramount requirements for an effective procurement system were: 1) an internal process that allowed the contracting party to effectively monitor the contractor’s performance against the terms of the contract and 2) a process that allowed for timely feedback on the results or findings to vendors, contract management and purchasing staff. This was identified as especially important for professional services contracts where the performance evaluations tend to be more subjective than with contracts for goods. The most effective monitoring systems were characterized as flexible and tailored to each agreement with the primary goals of improving contract administration, assuring responsiveness to customer needs, and obtaining the best value for the taxpayers.

In compliance with the Council directive, the PRC recommends the following:

1. Develop contract administration/monitoring plans. When the City is preparing RFPs for large complex contracts, contract administration/monitoring plans that clearly define roles and responsibilities for monitoring the contract should be developed and submitted to the PRC for review along with the RFP. This will enable the PRC to evaluate whether the proposed plan sufficiently defines the expected performance outputs defined in the statement of work and whether information is sufficient and consistent with best practices standards.
2. Call for a post-award orientation. Once a vendor is selected for a complex contract, an effective way to insure good contract management is to require a post-award orientation. This can be achieved by an in-person conference, letter, or some other form of communication that occurs at the beginning of the actual contract. Finance department staff should be brought in at an appropriate time to fully explain documentation requirements for invoice payments. The orientation process can be a useful tool that helps the City and contractor achieve a clear and mutual understanding of the contract requirements.

Further, it will help the contractor to understand the roles and responsibilities of the city personnel who will administer the contract, and reduces the potential for future misunderstandings and disputes.

3. Require review/approval of changes from RFP to contract. When a final negotiated contract is substantively different from the Request for proposals (RFP) reviewed and approved by the PRC and Council, the city attorney assigned to review the final contract should refer the contract back to the PRC for review and signoff. This will allow the PRC to review the changes to determine that they do not result in a breach of City contracting policy, a change in price, deliverables or scope from the initial RFP.
4. Maintain copies of change orders in both the Finance department and contracting department. A record of all contract change orders should be maintained by the contract manager of the project in addition to the Finance department. This will enable the contract manager to more effectively control contract cost differences that may increase or decrease as a result of changes.
5. Establish a single point of accountability. All large and complex contracts should have a single contract source that has ultimate accountability and authority to convene individuals responsible for different areas of a contract on a regular basis. This will avoid shifting of responsibility from one service delivery coordinator to another (finger-pointing) and sending contractors from one source to another with no single individual having overall responsibility for assessing performance against the contract requirements.
6. Utilize customer satisfaction surveys. The use of periodic customer satisfaction surveys for all contracts where services are provided to City users should be considered in order to determine how program officials, customers, and others interacting with the contractor are using a contractor deliverable. Such surveys can determine if the service or product is meeting the needs of the intended customer. Customer satisfaction surveys can also help to assess how satisfied customers are with the services they are receiving.

In addition to the preceding recommendations, there are two additional areas that require policy decisions that the Council may wish to consider.

1. Enhance internal audit function. The internal audit and compliance function of the City is a one person office that needs to be strengthened. This can best be achieved by adding internal resources to the office or contracting with an external audit source to conduct regular internal program and contract audits.

An effective internal audit function must occur regularly. Further, it should provide the necessary analytical and program data to determine the support necessary to ensure that City rules, regulations, and contract obligations are being met and that the City is getting what it is paying for, and that it pays only for what it is getting.

2. Require PRC/Civil Rights sign-off on contract modifications that increase contracts to exceed \$50,000. Contracts currently are not subject to PRC review or Department of Civil Rights diversity goals when they fall under the \$50,000. When contracts are amended to dollar amounts that bring the contract above \$50,000 within a twelve month period they become subject to both PRC review and Small Underutilized Business Program (SUBP) subcontracting goals.

Departments currently go directly to the City Council for approval of contract modifications. When such a modification increases a contract to exceed the \$50,000, there is not a mechanism in place to monitor compliance with these requirements.