

**CITY OF MINNEAPOLIS –
A REVIEW OF THE CITY OF MINNEAPOLIS CONTRACTING PROCESS**

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CITY CONTRACTING PROCESS REVIEW

PURPOSE:

To review, analyze and assess the procedures and related internal controls in use over the Contract Administration area. For purposes of this audit, contract areas included the Park Board, Library Board, and CDBG, and NRP.

OBJECTIVE:

Determine if current procedures, policies and controls are in place, working as intended and effective in the Contract Administration area.

SCOPE:

The scope of this review was calendar year ended 2004 and year to date 2005.

METHODOLOGY:

A general overall review of contract Management procedures was initially conducted followed by substantive tests designed to evaluate controls, adherence to procedures, policy etc.

CONCLUSIONS AND RECOMMENDATIONS:

- **A master list of employees and agencies authorized for invoice processing, physical location, and phone number be created and maintained on a current basis and made available to staff.**
- **Park Board Administration seek legal approval to add a section to the Sports Official Contract which would require the signee to attest to the fact that he/she is not currently a fulltime Park Board employee. Additionally, since the current Sports Official Contract calls for a required background check by the MPRB, this could also serve as a double-check on this issue.**
- **Proposal that Finance implement an ongoing self-assessment monitoring of the employee/vendor address comparison, initially using the current match listing with quarterly updated listing used in the future.**

BACKGROUND:

The City's Contract Administration function is situated within the Procurement Division of the Finance Department. Contract Administrator Lee Larson left this position in November, 2005, however Marie Dahlager remains within the unit.

Contract Administration is viewed as the "keeper" of the official city copy of contracts for the City, including the Minneapolis Park & Recreation Board, CPED, NRP, Building Commission and the Minneapolis Public Library. Their duties entail a review of contracts to educate departments about their responsibilities as to proper contract submission, however, departments are responsible for compliance with these requests (i.e. scope of service, affirmative action, signatures, dates, dollar amounts, insurance, attachments, etc.). After review, the contracts are given a number and set up as a price agreement within FISCOL.

As of 12/31/04 there were approximately 3,600 contracts in operation. Again for 2004, approximately 63% of these contracts are for professional services; 10% are bidding related – although not every bid item has a contract; and 27% miscellaneous (these are not subject to the bidding rules – such as bond purchase agreements, real estate transactions and revenue agreements).

New City contracts in 2004 totaled 1,035 while independent boards had 212 amounting to approximately \$268,000,000 and 75,000,000 respectively. The independent boards all provide a full gamut of contracts and they all have their own policies and procedures. There are contracts between the City and the individual boards as well as between different boards.

The Park Board generally provides contracts from two areas: 1) administrative, and 2) development. Likewise the MPL has a full slate of contracts, mostly centralized. The NRP has a) administrative contracts and b) neighborhood contracts that are coordinated by CPED.

As mentioned, numerous tests were conducted in conjunction with this review. While conducting these tests it became apparent that tracking down a specific invoice was considerably more difficult than anticipated. With the decentralization of Accounts Payable, the invoices are no longer maintained in a central location and the Accounts Payable Assignment Sheet is quite outdated. The invoices are maintained by the decentralized accounting staff. Locating an invoice is difficult without a current list identifying the persons responsible and their physical location.

RECOMMENDATION: It is recommended that a list of employees and agencies authorized for invoice processing, their physical location, and phone number be implemented, kept current, and made available to staff.

The following is a synopsis of each test conducted.

A: General Overall Review of procedures.

IA selected a random sample of 25 contracts from the 2004 City & Board Contract Summary obtained from Contract Management and BIS. Contracts were reviewed for purpose, amount, vendor, authorizations & approvals, expenditures with sample invoices tracked in Accounts Payable, and RFP approvals if required. Additionally, any/all change request were likewise reviewed for purpose, approvals, etc. No exceptions were noted in any of the contracts reviewed.

B: Top 50 Vendors (from an expenditure standpoint).

This entailed obtaining the listing of the top 50 vendors the City of Minneapolis did business with dollar-wise. The listing included “cost of doing business” vendors such as Blue Cross/Blue Shield, Mpls Police Relief Assn., PERA pension plan, etc. – however these were not selected for review. Rather IA selected a haphazard sample of vendors again reviewing contract expenses, approvals purpose etc. and again no exceptions were noted in any of the substantive tests conducted.

C: The top (dollar-wise) 25 Bid Contracts for 2004:

Selected a haphazard/judgement sample of five bid contracts. Analysis included a review of the bid process plus the “recap sheet” which lists all bids received for a specific job or project. In addition to approvals, IA also looked at the resultant contract, performance bond/payment bond/certificate of liability insurance requirements as well as payments made to date for each. Again, no exceptions were noted in any of the testing.

D: The top Bid Winners (i.e. more than one) by Vendor name for 2004.

A total of 16 vendors were named on this listing. An itemized listing of payments by purchase order was then obtained with a haphazard/judgement sample of six selected from that listing. These six were then traced to the specific purchase order and reviewed for completeness and approvals. Most of those with a high number of bid winners were found to be off the state contract process. No exceptions noted in these tests.

E. A Listing of Current Professional Services Contracts under \$50,000.

The \$50,000 limit was set because those over that amount require review and approval by the PRC. Ultimately a judgment sample of 15 contracts was selected. For these, the contract was sighted and reviewed for approvals, amounts etc. Additionally the individual vendor files in Accounts Payable were retrieved and sample payments to each of the vendors reviewed. No exceptions were noted.

F. A Comparison of City Employee Addresses to City Vendor Addresses.

With the assistance of Human Resources/HRIS, Internal Audit was able to obtain listing of current City employee addresses. Through BIS, IA set out to attempt to match these employee addresses with addresses of vendors with whom the City conducts business.

The listing received back from BIS showed a total of 343 matches between employee and vendor addresses. From this listing Internal Audit conducted two separate tests to determine if any City employee had/has current interests in current contracts. This testing amounted to taking a look at approximately 11% of the population contained on the BIS listing.

In the initial test, IA noted that, on the BIS match printout, a company name was listed as opposed to an employees name – a total of 23 times. These 23 made up the first sample for testing. These 23 were then tracked to payments made to vendors for both 2004 and 2005. Of these 23, five were found to have had payments made to them.

Further analysis of the five noted the following:

- 1) A&E Construction & Andrew Powell; payments of \$2,439 and \$2,967 for years 2004 and 2005 respectively. No contract with A&E Construction was found and Andrew Powell is a 16 year old who worked summers for the Park Board. No apparent conflict.

- 2) RFL Sight & Sound & Kevin Milner; payment of \$111 in 2004 only. No contract found, not an employee, dollar amount immaterial.
- 3) Mr. Paint & Michael Rivera; payment of \$900 in 2005. Found to be a former Park Board employee but retired in November, 2001. Hired as Mr. Paint but no contract found (job was to strip & refinish golf ball washers & covers). Two invoices sent, both for \$450. Verified through Gross Golf Course personnel that invoices were for two separate jobs.
- 4) Templin Trucking & William Templin; payments of \$14,531 and \$8,488 for 2004 and 2005 respectively. William Templin, who works for the City's Public Works department full-time as a truck driver, is the son of Charles Templin who operates Templin Trucking. Internal Audit noted that William Templin, Charles Templin, and Templin trucking all share the same address in Stacy, Minnesota.

Templin Trucking is "hired" by Public Works - Equipment Division via a price agreement arrangement through the City's Procurement Division. IA spoke with Public Works employee David Babcock who selects vendors for this area for Public Works from the price agreements. He stated that the initial consideration is the needs of the job, the availability of the vendors, and any special needs of the job. He calls from the lowest price per the price agreement publication. IA called William Templin and was told he does driving for Templin Trucking, but never on City related jobs.

IA discussed this with Bert Osborne of the Minneapolis City Attorneys Office and learned that under the scenario mentioned here, it would not be a Violation of the Ethics Code unless the employee (William) takes action to affect the contract, and it doesn't appear that this is the case here. The City Attorneys Office added that it does look bad, and although it may not be a technical violation of the Ethics Code, it does have an appearance of impropriety.

- 5) Wayfinder & Ty Herman; payment of \$11,450 in 2004. Internal Audit found a professional services contract (for the period 9/1/04-12/31/04) with Wayfinder through the Park Board for "showmobile graphics" and the contact on the contract was a Mark Herman. Ty Herman, 17 years old, was a former Park Board employee from 6/26/05 through 8/10/05 (after the professional services contract date) and has the same address as Mark Herman/Wayfinder.

In the second test, IA selected those names from the BIS listing which had an address listed more than once. In this case there were 14 total items.

Again these were traced to vendor payment files and found that six of the 14 showed no payments for either 2004 or 2005. Internal Audit noted the following for the remaining eight:

- 1) Bruce & Keith Enstad. Neither were found to be Park Board or City employees, however both were employed as sports officials and both had signed a MPRB "Sports Official Contract." Originally, Internal Audit was informed that fulltime employees, on a City-wide basis, are not supposed to be officials, but they (Park Board) don't verify every individual situation; part-time employees (20 hours or less) are allowed to be officials. IA later learned this was an informal rule as opposed to a written policy and has since been addressed by the Park Boards General Manager of Operations (see responses at the end of this report).
- 2) Joseph Fine & Robert Fine. Joseph was paid only as a sports official and had a signed Sports Official Contract on file, Robert is on the Park and Recreation Board.
- 3) Edwin & Elliot Gleason. Again, both were paid only as officials and both had signed sports Official Contracts on file at the Park Board Office.
- 4) Jeweleen Jackson (aka Thandisizwe Sindiswa Jackson-Nisan). Signed a Recreation Performance Agreement as a storyteller. Total paid was \$100. Former Park Board employee but not currently.
- 5) Catherine & Christine Murzyn. Both were paid as temporary office assistants by the City for mass mailings. Neither were/are City employees.
- 6) Ben, Paul & Peter Ogren. Paid as sports officials by the Park Board, all three had signed Sports Official Contracts on file. Paul is a fulltime City employee in Public Works, however given the most recent Park Board policy concerning this – only fulltime Park Board employees are not allowed to be contract sports officials.
- 7) Cheryl & Tony Olmus. Cheryl received workers compensation payments via the City through Public Works. Although Tony had been assigned a vendor number, Internal Audit found no payments to him for the time period under review. Likewise no contracts were found.

8) James A. & James J. Wajda. Both were paid only as sports officials by the Park Board and both had signed Sports Official Contracts on file at the Park Board offices.

As can be seen, most of these cases involve sports officials. Internal Audit was informed by Julie Wiseman of the Park Board that the Park Board policy changed the process in the recent past. They used to pay sports officials as employees through the payroll process, now it goes through accounts payable with the officiating agreement/contract in place. It was done this way in order to be consistent with officials paid throughout the state.

Mini Kalb, who oversees the youth officials told IA that each park advertises for the officials they hire. The Park Board office also advertises in the Daily, City Pages and they also send out announcements to local private and public colleges. Those are essentially the avenues they take to “get the word out.” Mimi oversees it from a city-wide level, with each park doing their own hiring. If someone calls, they are referred to the park in their area.

RECOMMENDATION: Internal Audit recommends the Park Board seek legal approval to add a section to the Sports Official Contract which would require the signee to attest to the fact that he/she is not currently a fulltime Park Board employee. Additionally, since the current Sports Official Contract calls for a required background check by the MPRB, this could also serve as a double-check on this issue.

RECOMMENDATION: The final substantive test conducted in this review – the comparing of employee addresses to vendor addresses and followup, appears to have been useful in its initial endeavor. However, given the limited Internal Audit staff and time available, additional analysis, although beneficial is not possible. In order to create a more value-added environment Internal Audit would like to propose that Finance implement an on-going self-assessment monitoring of this area, using the current generated match listing. To that end, Internal Audit suggests a meeting with Finance personnel to determine where such monitoring would best fit and how to accomplish it.