

City of



BUDGET & MANAGEMENT STUDIES – INTERNAL AUDIT

DATE: September 10, 2010

TO: KEN HAMM, Director, Department of Transportation/FAX
KATHLEEN HEALY, Administrative Manager, Department of Transportation/FAX

THROUGH: RENENA SMITH, Budget Director *Renena Smith*
Budget and Management Studies

FROM: BOB KOURY, Principal Internal Auditor *Bob Koury*
BILL RICHARDS, Internal Auditor *Bill Richards*
Budget and Management Studies - Internal Audit

SUBJECT: FINAL AUDIT REPORT – TRANSPORTATION/FAX REVENUE CONTRACTS
AUDIT

Attached is the Final Audit Report of the Transportation/FAX Revenue Contracts Audit. Internal Audit sincerely thanks Transportation/FAX Management and Staff for their assistance during this audit.

Internal Audit will perform a follow-up audit six to twelve months after this report is issued to verify that the recommendations have been implemented or that the issues documented in the findings have been resolved in a manner that addresses the risk identified. The follow-up review is performed in accordance with AO 1-12 and Government Auditing Standards.

If you have any questions regarding this matter, please do not hesitate to contact Bob Koury, Principal Internal Auditor at 621-7072 or Bill Richards, Internal Auditor at 621-7063.

Attachments

cc: Ashley Swearingin, Mayor
Council Members
Mark Scott, City Manager
Bruce Rudd, Assistant City Manager
Nicole Zieba, Deputy City Manager
Jim Sanchez, City Attorney
Joe Gray, Finance Director/City Controller
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City of



BUDGET AND MANAGEMENT STUDIES – INTERNAL AUDIT

FINAL AUDIT REPORT

Transportation/FAX Revenue Contracts Audit

Audit Number 10-0022

**Performed by:
Bill Richards, Internal Auditor
Budget and Management Studies – Internal Audit**

Issued on September 10, 2010

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Executive Summary

The most significant audit findings are summarized below based on the results of our review of the Transportation/FAX Revenue Contracts. Our audit findings are intended to assist Transportation/FAX Management/Contract Administrator in their contract oversight responsibilities.

Key Audit Findings

- The City Attorney's Office Citywide Contract Database did not include the five revenue contracts; Fresno County Unified School District Teilman Campus, Valley Children's Hospital, LAMAR Transit Advertising, the City of Clovis, and the County of Fresno.
- The City Clerk's Office database did not include the LAMAR Transit Advertising contract.
- Some of the quarterly payments for two contracts were not received within 15 calendar days of the billing date as required by the contracts; however, the contracts do not stipulate the assessment of a late fee for payments not received within 15 calendar days of the billing date.
- An outstanding amount of \$15,577 is owed the City as of the audit date related to the Fresno County Unified School District Teilman Campus Contract.
- There is a lack of consistent and formalized contract administration, compliance monitoring, and recordkeeping related to the contracts under the Administration of Transportation/FAX which has contributed to the audit findings noted throughout this audit report. The City Attorney's Office has also not complied fully with AO 6-22 related to their maintenance and monitoring of Transportation/FAX Contracts.

INTRODUCTION

Background

As a Best Practice, Internal Audit periodically conducts a Citywide Risk Assessment to identify areas of potential risk to the City. Internal Audit recently conducted a Citywide Risk Assessment which was used to develop our FY-10 and FY-11 Audit Plan. In accordance with that annual audit plan, Internal Audit is conducting audits of revenue contracts in several Departments.

Audit Objectives

The primary audit objectives were to determine whether (1) adequate internal controls over the administration of revenue contracts are in place; (2) all appropriate contract revenue was received in accordance with the contract and accurately recorded; and (3) both parties to the contract complied with the requirements and provisions of the contract.

Audit Scope and Methodology

Internal Audit performed the audit during the period May through July 2010, in accordance with Administrative Order 1-12 and Generally Accepted Government Auditing Standards. In order to accomplish our objectives, Internal Audit performed appropriate audit procedures and tests of records in order to form a conclusion as to the adequacy of the oversight, administration, contract compliance monitoring and recordkeeping related to Transportation/FAX revenue contracts.

Audit Conclusion

The Transportation/FAX Management and staff are a professional group of individuals and are commended for their efforts in the oversight of the numerous contracts they are responsible to administer. Internal Audit noted several areas during the course of the audit that need improvement to strengthen internal controls. These areas are addressed throughout this Audit Report.

REPORT SECTIONS - RESULTS AND RECOMMENDATIONS

I. Fresno County Unified School District (FCUSD) Teilman Campus

The contract with FCUSD Teilman Campus is for Transportation/FAX transit service to the Teilman Campus. The contract period is July 1, 2000 until termination. Contract Section 4 states, "FCUSD's total compensation to the CITY for public transportation service ... to be billed to FCUSD quarterly and shall be adjusted annually as specified in Schedule A. Each payment shall be due and payable within fifteen (15) calendar days by FCUSD of the respective billing date." Schedule A is adjusted annually by Transportation/FAX to reflect revised expenses for the fiscal year for which the services are to be provided.

FCUSD sent a notice of termination dated March 16, 2010 to Transportation/FAX terminating the contract effective June 30, 2010.

Internal Audit reviewed the contract, the FY09 and FY10 billing and payment documents, and the letter of termination, and noted the following:

- The contract was not listed on the Transportation/FAX Contract List that was provided to Internal Audit August 2009. The Contract Administrator informed Internal Audit of this contract and provided the billing and payment documents.
- The FY-09 quarterly payments averaging \$11,984 were received late ranging from 45 to 131 calendar days after the due date. In FY10, the first and second quarter payments of \$9,487 and \$7,993 respectively were received 62 and 28 calendar days after the due date. The contract does not stipulate a late fee for payments not received within 15 calendar days of the billing date.
- The FY-10 third and fourth quarter payments were billed but not received as of the audit date. The third quarter payment of \$8,055 was billed on May 7, 2010 and the fourth quarter payment of \$7,522 was billed on July 12, 2010.
- The City Attorney's Office Citywide Contract Database did not include the FCUSD Teilman Campus contract.

Audit Recommendations

1. The Contract Administrator should update the Contract List to ensure the list contains all the contracts for which Transportation/FAX has oversight responsibility and to ensure the accurate and timely recording of all contracts for reference, reporting, and audit purposes.
2. The Contract Administrator should ensure that the \$15,577 due is collected as the contract was terminated as of June 30, 2010.
3. The Contract Administrator/FAX Management, in conjunction with the City Attorney's Office, should consider adding a late payment fee section to all current and future contracts to encourage the timely submission of revenue due the City.

4. The Contract Administrator should immediately meet with the City Attorney's Contract Compliance Coordinator in order to ensure that all Revenue Contracts and any other Contracts under their administration have, in fact, been provided to the City Attorney's Office for database maintenance purposes, and to assist Transportation/FAX in the monitoring of their respective contracts.

Management Response to Recommendations 1-4

Transportation/FAX Management concurs with the Audit Recommendations – see attached September 8, 2010 Memorandum Response.

II. Valley Children's Hospital (VCH)

The contract with VCH is for Transportation/FAX transit service to VCH. The contract period is September 1, 1998 until termination. Section 4 of the contract states "VCH's total compensation to the City for public transportation service to VCH... to be billed to VCH quarterly, and shall be adjusted annually as specified in Schedule A. Each payment shall be due and payable within fifteen (15) calendar days by VCH of the respective billing date." Schedule A is adjusted annually by Transportation/FAX to reflect revised expenses for the fiscal year for which the services are to be provided, utilizing the formulas set forth in Schedule A. For purposes of the contract, the fiscal year is July 1 through June 30. The FY09 Schedule A amount is \$119,949.87 and the FY10 Schedule A amount is \$116,351.11.

Internal Audit reviewed the contract, the FY09 and FY10 billing and payment documents and noted the following:

- Two FY09 quarterly payments for \$29,987 each were not received within 15 days of the billing date. The first quarter payment was received 7 calendar days after the due date and the second quarter payment was received 13 calendar days after the due date. The contract does not stipulate a late fee for payments not received within 15 calendar days of the billing date.
- The City Attorney's Office Citywide Contract Database did not include the Valley Children's Hospital contract.

Audit Recommendations

5. The Contract Administrator, in conjunction with the City Attorney's Office, should consider adding a late payment fee section to all current and future contracts to encourage the timely submission of revenue due the City.
6. The Contract Administrator should immediately meet with the City Attorney's Contract Compliance Coordinator in order to ensure that all Revenue Contracts and any other Contracts under their administration have, in fact, been provided to the City Attorney's Office for database maintenance purposes, and to assist Transportation/FAX in the monitoring of their respective contracts.

Management Response to Recommendations 5-6

Transportation/FAX Management concurs with the Audit Recommendations – see attached September 8, 2010 Memorandum Response.

III. LAMAR Transit Advertising

The contract with LAMAR is for advertisement space on Transportation/FAX buses. The contract period is September 1, 2007 to August 31, 2012. The contract amount is \$2,205,000 over the 5 years of the contract. LAMAR paid \$400,000 in FY-08; \$335,317 in FY-09; and \$429,203 in FY-10.

Internal Audit reviewed the contract and the revenue and production services documentation for FY08-10, and noted the following:

- The City Attorney's Office Citywide Contract Database did not include the LAMAR Transit Advertising contract.
- The City Clerk's Office contract database did not include the LAMAR Advertising contract.

Audit Recommendations

7. The Contract Administrator should immediately meet with the City Attorney's Contract Compliance Coordinator in order to ensure that all Revenue Contracts and any other Contracts under their administration have, in fact, been provided to the City Attorney's Office for database maintenance purposes, and to assist Transportation/FAX in the monitoring of their respective contracts.
8. The Contract Administrator should provide the City Clerk's Office with an original signed copy for the official City records, for reference or public records access purposes, and for reconciliation with the City Attorney's Office Citywide Contract Database on a quarterly basis for control and accountability purposes.

Management Response to Recommendations 7-8

Transportation/FAX Management concurs with the Audit Recommendations – see attached September 8, 2010 Memorandum Response.

IV. City of Clovis

The contract with the City of Clovis is for Transportation/FAX transit and Handy Ride services to and within the jurisdiction of the City of Clovis. The contract period is January 1, 1995 until termination by either party.

Contract Section 11b - Liability Insurance states "The certificate or endorsement shall be delivered to Fresno prior to commencing service hereunder, any subsequent certificate or endorsement to be forwarded to Fresno promptly upon any change, replacement, rewriting or renewal." AO 6-22 states "The Contract Administrator will maintain a file for each contract and include therein ... all required insurance certificates and endorsements."

Transportation/FAX is compensated for transit services to Clovis per the sum specified in Schedule A (annual service cost calculations); however, the reimbursement is based each year on the formula distributions of Local Transportation Funds (LTF) and State Transit Assistance (STA) funds to the County. LTF funds are from the ¼ cent sales tax revenues. Significant decrease in sales tax revenues have been seen throughout the state and nation and have impacted LTF revenues. And as a result of actions taken by the State Governor and Legislature, STA funds are not available.

The LTF and STA are one of many funding sources for Transportation/FAX. The County authorizes the City to claim from the Council of Fresno County Governments (COFCG) on behalf of the County a share of the County's LTF and the County's allocation of STA funds as reimbursement for transit service operations. COFCG provides Transportation/FAX with an estimate of the funds that may be available and Transportation/FAX submits the Transportation Funding Claim for ongoing transit operations including transit service within the County jurisdiction and the City of Clovis.

Transportation/FAX does not receive payments directly from the City of Clovis; therefore, tests of billings and payments were not considered appropriate.

Internal Audit reviewed the contract and the transportation funding claims for FY09 and FY10, and noted the following:

- The Contract Administrator did not have an Insurance Certificate on file for the City of Clovis but immediately obtained a Certificate of Insurance from the City of Clovis.
- The City Attorney's Office Citywide Contract Database did not include the City of Clovis contract.
- FY09 Transportation Funding Claim submitted for transit service of \$18.6 million includes \$211,031 for transit service to the City of Clovis and \$18.9 million was received.
- FY10 Transportation Funding Claim submitted for transit service of \$15.3 million includes \$207,731 for transit service to the City of Clovis and as of the audit date \$10.5 million has been received.

Audit Recommendations

9. The Contract Administrator should increase monitoring efforts to ensure the receipt of a current Certificate of Insurance with applicable endorsements evidencing renewal of all required insurance coverage.
10. The Contract Administrator should immediately meet with the City Attorney's Contract Compliance Coordinator in order to ensure that all Revenue Contracts and any other Contracts under their administration have, in fact, been provided to the City Attorney's Office for database maintenance purposes, and to assist Transportation/FAX in the monitoring of their respective contracts.

Management Response to Recommendations 9-10

Transportation/FAX Management concurs with the Audit Recommendations – see attached September 8, 2010 Memorandum Response.

V. County of Fresno

The contract with the County of Fresno is for Transportation/FAX transit and Handy Ride services to the unincorporated areas of the City. The contract period is September 18, 1986 until termination by either party.

Transportation/FAX is compensated for the transit services per the sum specified in Schedule A (annual service cost calculations); however, the reimbursement is based each year on the formula distributions of Local Transportation Funds (LTF) and State Transit Assistance (STA) funds to the County. LTF funds are from the ¼ cent sales tax revenues. Significant decrease in sales tax revenues have been seen throughout the state and nation and have impacted LTF revenues. And as a result of actions taken by the State Governor and Legislature, STA funds are not available.

The LTF and STA are one of many funding sources for Transportation/FAX. The County authorizes the City to claim from the Council of Fresno County Governments (COFCG) on behalf of the County a share of the County's LTF and the County's allocation of STA funds as reimbursement for transit service operations. COFCG provides Transportation/FAX with an estimate of the funds that may be available and Transportation/FAX submits the Transportation Funding Claim for ongoing transit operations including transit service within the County jurisdiction and the City of Clovis.

The contract is an agreement or revenue source for FAX but FAX does not receive payments directly from the County of Fresno; therefore, tests of billings and payments were not considered necessary.

Internal Audit reviewed the contract and the transportation funding claims for FY09&10 and noted the following:

- FY09 Transportation Funding Claim submitted for transit service of \$18.6 million includes \$1.6 million for transit service within the County's jurisdiction and \$18.9 million was received.
- FT10 Transportation Funding Claim submitted for transit service of \$15.3 million includes \$1.8 million for transit service within the County's jurisdiction and as of the audit date \$10.5 million has been received.
- The City Attorney's Office Citywide Contract Database did not include the County of Fresno contract.

Audit Recommendation

11. The Contract Administrator should immediately meet with the City Attorney's Contract Compliance Coordinator in order to ensure that all Revenue Contracts and any other Contracts under their administration have, in fact, been provided to the City Attorney's Office for database maintenance purposes, and to assist Transportation/FAX in the monitoring of their respective contracts, in compliance with AO 6-22.

Management Response to Recommendation 11

Transportation/FAX Management concurs with the Audit Recommendation – see attached September 8, 2010 Memorandum Response.

VI. Department Contract Administrator's Duties

Internal Audit identified a number of Administrative Orders (AO), which require each Department to have a Contract Administrator to administer, track, and monitor Contracts/Leases for their respective Department/Division. The AOs are as follows:

- AO 1-1 Grants Administration (Finance) - Issued on December 1, 1998
- AO 4-1 Processing of Contracts to Which the City is Party (City Attorney) - Revised on November 9, 2006
- AO 6-22 Contract Compliance System (City Manager) - Issued on November 9, 2006

The duties and responsibilities of the Contract Administrator are not clearly defined in the above noted AOs. As a result of Internal Audit's Citywide Contract Compliance Audit Report issued February 16, 2010, a new AO was drafted to replace AOs 4-1 and 6-22 and to more clearly define the Contract Administrator's responsibilities. The newly drafted AO is currently under review for approval and distribution by the City Manager's Office as of our audit date.

Administrative Order 6-22 "Contract Compliance System" specifically states – "The Council has established a Citywide Contract Database, maintained by the City Attorney's Office, to assist departments in the monitoring of their respective contracts. The database is to include data for all contracts to which the City is a party. Department Contract Administrators are responsible for providing the data to the City Attorney Office Contract Compliance Coordinator for input into the database. The system (City Attorney's Office) will provide advance reminder notices to Contract Administrators of events under the contract requiring City action or monitoring (i.e., expiration of contract, exercise of option, expiration of security and insurance policies, performance milestones, etc.).

During the audit and as noted in this audit report:

- The FCUSD Teilman contract was not listed on the Transportation/FAX Contract List that was provided to Internal Audit August 2009. The Contract Administrator informed Internal Audit of this contract and provided the billing and payment documents.
- The Department Contract Administrator did not have an Insurance Certificate on file for the City of Clovis but immediately obtained a Certificate of Insurance from the City of Clovis.
- The City Clerk's Office contract database did not include the LAMAR Transit Advertising contract.
- None of the Transportation/FAX Revenue Contracts were included in the City Attorney's Office Citywide Contract Database, as required by AO 6-22. Internal Audit could not ascertain, without supporting documentation, that Transportation/FAX did, in fact, submit all of their revenue contracts to the City Attorney's Office, as also required by AO 6-22. However, during our Citywide Contract Compliance Audit (report issued February 16, 2010), the City Attorney's Office was approximately two years behind in inputting contracts into their database that had been submitted by City Departments to the City Attorney's Office Contract Compliance Coordinator. As a result, the City Attorney's Office could not provide Transportation/FAX with "advance reminder notices" of such items as contract expiration dates, insurance policy expiration dates, etc.

Audit Recommendations

12. The Department Contract Administrator should maintain a complete listing of all Department contracts and maintain this listing on an ongoing basis for accountability, reference and reporting purposes.
13. The Department Contract Administrator should establish and maintain a file for each Department contract and include therein, at a minimum, the following:
 - A fully executed original contract, including all Exhibits and any subsequent Amendments, change orders, etc. to such contract(s);
 - Contract term, i.e. effective and expiration dates;
 - All required Insurance Certificates and endorsements;
 - All disbursement or revenue amounts, terms, conditions and frequency of such contract transactions for monitoring purposes; and
 - Any information regarding source(s) of funding and encumbrances specific to the contract.
14. The Department Contract Administrator should establish formalized procedures to ensure complete and consistent contract compliance by all parties to the contract, to specifically include but not be limited to, the following:
 - Monitoring of contract and insurance policy expiration dates.
 - Monitoring of the satisfactory completion of contract deliverables and reporting requirements and the due dates of such deliverables as stipulated in the contract.
 - Monitoring of all payments due the City (revenue contract) or disbursements due the contractor (expenditure contract), i.e. amounts are accurate as per the contract terms and conditions, supported by adequate documentation, and reportable on a regular basis to City Management or to appropriate outside agencies.
 - Monitoring and review of actual contract revenues or contract expenditures throughout the term of the contract, to include comparisons to Department Budget and, if applicable, the initiation of budgetary action and/or reporting to City Management, as considered appropriate.
15. The Department Contract Administrator should provide the City Clerk's Office with an original signed copy of the LAMAR Bus Advertising contract for the official City records for reference or public records access purposes and for reconciliation with the City Attorney's Office Citywide Contract Database on a quarterly basis for control and accountability purposes.
16. The Contract Administrator should immediately meet with the City Attorney's Contract Compliance Coordinator in order to ensure that all Revenue Contracts and any other Contracts under their administration have, in fact, been provided to the City Attorney's Office for database maintenance purposes, and to assist Transportation/FAX in the monitoring of their respective contracts, in compliance with AO 6-22.

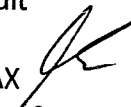

Management Response to Recommendations 12-16

Transportation/FAX Management concurs with the Audit Recommendations – see attached September 8, 2010 Memorandum Response.



DATE: September 8, 2010

TO: BOB KOURY, Principal Internal Auditor
BILL RICHARDS, Internal Auditor
Budget and Management Studies Division – Internal Audit

FROM: KEN HAMM, Director, Department of Transportation/FAX 
KATHLEEN HEALY, Administration Manager, Department of Transportation/FAX 

SUBJECT: FINAL DRAFT AUDIT REPORT – TRANSPORTATION/FAX REVENUE CONTRACTS
AUDIT MANAGEMENT RESPONSES

Management Responses to Audit Recommendations 1-5

1. The Department's Contract Administrator will update the contract list to include all Transportation/FAX contracts within 60 days from the issuance of the Final Report. This will ensure the timely recording of all contracts for reference, reporting, and audit purposes.
2. As of 7/28/2010 the Department has received \$7,522.47 of the \$15,577 that was outstanding from FCUSD Teilman Campus. Payment notification, for the remainder of \$8,054.53, was sent on 09/3/2010.
3. The Department has accommodated other government agencies based on their processes and accounting schedules. The Department will partner with the City Attorney's Office to amend payment language in its revenue contracts to more accurately reflect when payments are expected. The Department will update the language within 6 months; before revenue contracts are renewed in July of 2011.
4. The Department will contact the City Attorney's Office to ensure all revenue contracts have been provided within 60 days.

Management Responses to Audit Recommendations 5-6

5. The Departments Contract Compliance Officer will contact the City Attorney's Office to discuss adding language that specifies the assessment of a late payment fee for all current and future contracts within 6 months. Revenue contracts will be renewed in July of 2011.
6. Please see response to recommendation #4.

Management Responses to Audit Recommendations 7-8

7. Please see response to recommendation #4.
8. As of 8/25/2010 the Department has submitted the LAMAR advertising contract to the City Clerk's Office.

Management Responses to Audit Recommendations 9-10

9. The Contract Administrator will generate and implement a monitoring system that will ensure all contract requirements are being met, within 60 days.
10. On 7/27/2007 the Department submitted to the City Attorney's Office, information on the following contracts; Valley Children's Hospital, City of Clovis and the County of Fresno. The Department will resubmit these contracts within 30 days.

Management Responses to Audit Recommendations 11

11. Please see response to recommendation #10.

Management Responses to Audit Recommendations 12-16

12. Please see response to recommendation #9.
13. The Department's Contract Administrator will establish future contract files and review existing contract files to ensure they include the information listed below within 60 day.
 - i. A fully executed original contract, including all exhibits and any subsequent amendments, change orders, etc.
 - ii. Contract term, i.e. effective and expiration dates;
 - iii. All required Insurance Certificates and endorsements;
 - iv. All disbursement or revenue amounts, terms, conditions and frequency of such contract transactions for monitoring purposes and ;
 - v. Any information regarding source(s) of funding and encumbrances specific to the contract.
14. The Department will develop procedures consistent with AO 6-22 and AO 4-1 within 60 days.
15. Please see response to recommendation #8.
16. Please see response to recommendation #4.