CITY OF WILMINGTON
Contract Management
Internal Audit Review

City Auditor's Office

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Highlights

Why We Did This Audit

The Internal Audit Department (IAD) performed a scheduled audit for the Contracts in Information Technology. The audit was in accordance with the 2019 Internal Audit Plan.

Methodology

During the audit period, July 1, 2018 to June 30, 2019, there were 90 open and active contracts for the IT Department. To meet our objectives, IA reviewed contracts considered most critical based on dollar amounts, as well as, selecting 56 invoices and supporting documentation to ensure the City is protected under cyber security clauses.

Audit Review Committee:

TBD, Chair

Ciro Adams
Marchelle Basnight
Angelique Dennis
Bud Freel
Ronald Pinkett
Tanya Washington

Objective and Scope

Internal Audit (IA) conducted a Performance Audit of the selected contracts within the Information Technology (IT) Department. Our objectives were to determine whether adequate controls are in place, and adequate oversight existed in the monitoring of IT vendors that contract with the City of Wilmington (CoW). The scope of the audit focused on review of contracts in effect from July 1, 2018 to June 30, 2019. IAD examined fourteen contracts from the IT Department and sampled five invoices (if applicable) from each contract. IA believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards ("GAGAS"). These 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.
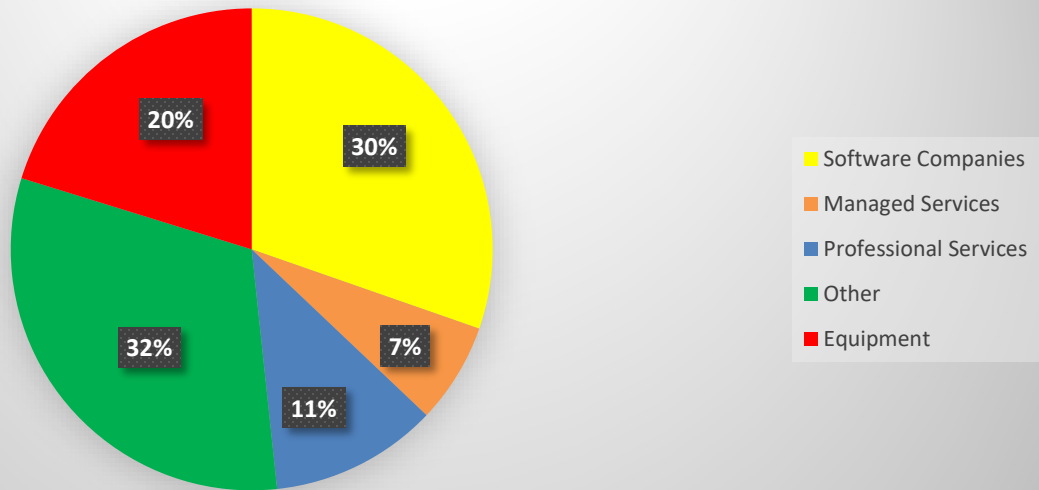
Background

Contract management is a two-stage process. The first stage is procurement, which includes vendors adhering to the CoW's Bidding Process, issuing contract, and acquiring the good or service. If the departments contract for Professional Services than the individualized departments are not required to go through the procurement process. The second stage is contract monitoring, which includes a variety of steps taken to ensure the department receives what the contractor promised to deliver under the terms of the contract. For our review we focused on the second stage, the department's monitoring of contract related activities.

Key Statistics:

FY19 - Contracts Reviewed	Dollar Amount
Diamond Technologies	578,388.00
Diamond Technologies*	8,400.00
CH2M Hill Engineers	475,000.00
Tyler Technologies	444,843.66
SHI (Software	301,981.74
MTM Technologies	277,216.00
VAR Resources	221,619.73
Integrity Staffing	216,361.00
Reserve Account	180,000.00
CDW-G Government	171,209.84
Kronos Incorporated	160,717.90
Microsoft Corporation	85,997.99
Hosting.com	65,072.00
Gartner	24,333.33

Reviewed 14 of 90 (16%) Contracts for IT Department

FY19 IT Contracts by Category

Legend:
- Software Companies
- Managed Services
- Professional Services
- Other
- Equipment

Pie chart values: 30%, 7%, 11%, 32%, 20%

What we found

Key Findings

Following are key issues that resulted in a process/area to be risk rated a three or four. See **Attachment A** for the detail of these and all comments identified during the review.

Risk Ranking:		(See Attachment B for full rating definitions)			
Process / Area	**Process / Area Owner**	**1 Strong Controls**	**2 Controlled Effectively**	**3 Controlled - Improvement Required**	**4 Significant Improvement Required**
Business Continuity	Demond May				✓
Compliance	John D'amelio				✓
Review & Approval Process	Demond May			✓	

Business Continuity

1. CoW contracts need strengthening of the terms and conditions (T&Cs) to include contractual clauses to protect the City's data and confidential information (CI).
- All of the contracts that were applicable to cyber security did not have defined responsibility or protections listed in the terms and conditions (T&Cs).
- If there is suspected activity or associated risks the vendors are not required to notify the city of suspiciousness.

Compliance

2. Noncompliance exist with contract information in Tyler Content Manager (TCM) /Munis. Internal Audit reviewed 14 contracts for IT Department in Fiscal Year 19. The following issues were noted that involved Procurement for contract management.

   - There were six vendors that had missing contract information in Munis. For example, the vendors either had no contract at all, or were missing the renewal.
   - Of the fourteen contracts reviewed only three had verifiable proof that it was reviewed by the law department.
   - There were several contracts that appeared to be renewed well after the expiration of the contract.

Review & Approval Process

3. Control weaknesses were observed during a walkthrough of the invoice review and approval process.

   - Due to lack of contracts or renewals in TCM. IA was unable to verify if some invoices truly reflected the agreed pricing for goods and services received.
   - Additionally, the process for approval of invoices was on the internal control questionnaire (ICQ) sent to the IT department. Based on inquiry and observation, it was noted there is no formal process for approval of invoices. They are checked whenever in queue.
   - The invoices in Kronos do not have line by line itemization, therefore no proof exists to determine whether what is billed is accurate.

Management Responses to Audit Recommendations

Recommendation #1: The CoW should revise the T&Cs in their contracts to protect against cyber security incidents. This can be accomplished by requiring Service Organization Control reports (SOC) and Statement on Standards for Attestation Engagements (SSAE) reports for third pay vendors that access our systems and/or access our data; Having both will provide enhanced security for our contracts and financial reporting.

The Information Technology (IT) department has many vendors and should perform third party assessments, due to the rise in cyber-attacks of third-party vendors. The CoW should be aware of vendor protocols in handling cyber security as it may differ from ours and be less stringent to our current practices, which could affect our day to day operations. By doing these assessments it makes the city more aware of any known attacks and how to prevent attacks from happening.

Management response & action plan: It should be noted that the Finding "All of the contracts that were applicable to cyber security…" does not refer to any Risk Management contracts, since to best of the knowledge of the Risk Manager none were provided or reviewed as part of this audit.

Risk Management is in agreement that the City should revise the Terms & Conditions required in all City contracts wherein confidential or sensitive data is being shared or accessed by vendors to provide for data security measures, including PCI or other such industry standards for data retention or processing, notification of breach, indemnification, and cyber insurance requirements, and require compliance with industry and government standards that may be provided for reviews of or reports by vendors that access our systems or have access to City data.

Completion Date: TBD

Recommendation #2: Management needs to develop a better process to ensure all contracts and renewals are scanned into Munis. For instance, employees should be trained to enter contracts in Munis under contracts and not just the requisition section. If a contract is a renewal, there should still be a copy of that renewal under the FY that the contract is being renewed. In addition, there needs to be a systematic approach in regard to retrieving signatures or ensuring that e-mail approvals are attached from the Law department. Lastly, contracts should not be renewed without verifying or incorporating changes that may be beneficial to the CoW.

Management response & action plan: From a department level, all supporting documents are attach in Munis via Tyler Contract Management to the requisition only. This is a Munis design flaw, not allowing to see approved requisition documents under purchase orders. However, these attachments are then easily accessible from the P.O. screen

- All multi-year contracts are kept with the original purchase order.

- Procurement totally agrees, but this is a result of a decision by the Law department to no longer stamp the document.

- Lastly, contracts should not be renewed without verifying or incorporating changes that may be beneficial to the CoW

Completion Date: TBD, Per Law Department Review

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Recommendation #3: Management should implement a review process to validate whether the rate on invoices agrees with the contract price.

A policy and procedure manual should be created for the invoice management and the approval process. The department should not rely on the AP staff to be knowledgeable of all incoming invoices. Having a second step helps ensure no fraudulent or erroneous billing occurs. This also ensures proper and timely payments.

The department should question invoices that are not itemized, to ensure the CoW is paying for the correct items.

Management response & action plan:

Completion Date: TBD

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Audit Team

Nicole Sammons-Johnson, Senior Auditor
Tamara Thompson, Audit Manager