



**CITY OF MODESTO  
COMMITTEE AGENDA REPORT**

**DATE OF MEETING:**

March 26, 2018

Date: February 9, 2018

TO: Finance Committee  
Mani Grewal, Chair  
Kristi Ah You, Vice-Chair  
Bill Zoslocki, Member

THROUGH: Joseph P. Lopez, Interim City Manager

FROM: DeAnna Christensen, Director of Finance

SUBJECT: Follow-up Items from Review of City Purchasing/Contracting Practices and Recommended Corrective Action

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**DESCRIPTION:**

Consider accepting an informational update on follow-up items from the comprehensive review of City purchasing/contracting practices and recommended corrective action plan. (Funding Source: Various Funds)

**STRATEGIC PLAN ELEMENT:**

This item supports the Strategic Commitment, "Effective Responsive and Transparent Government – Make informed decisions embracing best practices and continuous improvement".

**BACKGROUND:**

During the Summer and Fall of 2017, it was identified that several purchasing agreements exceeded Council's authorized spending authority and that certain contract amounts had been increased without the appropriate approval requirements. As a result, the Interim City Manager took immediate action by directing staff to analyze all of the purchasing documents and hiring an outside forensic investigator, an audit firm (Hudson Henderson and Co.), and the hiring of a project coordinator, Mr. Bob Deis, Senior Consultant for the Public Management Group (PMG) division of the Sloan Holtzman Sakain LLP law firm.

At the January 23, 2018 Council meeting, Mr. Deis presented his report, which outlined the framework of good governance and a high-performance organization. He explained how the City compares to other organizations regarding this Purchasing matter. Mr. Deis defined an organizational approach the City should put in place to ensure there are gatekeepers at all levels of the organization. In addition, Mr. Deis identified nine observations and

recommendations that the City should implement to establish stronger internal controls and accountability within the organization.

The City hired audit firm Hudson Henderson and Co. to perform auditing services associated with the review of all supporting documentation related to the Garrett Thompson Hot Patch invoices, review of billing rates for Aramark invoices, performance of a review of the City's agreements to provide a risk assessment on how the City processes these agreements in the Oracle financial system, and to identify of procedural changes necessary to improve internal controls. They also provided recommendations on best practices for Purchasing Policies and Procedures.

**DISCUSSION:**

City staff reviewed the nine recommendations provided in Mr. Deis's report and has developed a plan for steps necessary to implement each recommendation. As part of the monthly Purchasing update to the Finance Committee, the Finance Department will work with the City-wide Purchasing Team to continue to provide updates on the status of each recommendation. City staff will continue to work with Mr. Deis on troubleshooting until all nine recommendations have been successfully implemented.

Hudson and Henderson and Co. issued an audit report which outlined several agreements which had been increased above Council's authority. These were the same agreements presented to Council at the January 23<sup>rd</sup> Council meeting. The auditors also identified the agreements for which the Purchasing team had reduced the agreement amounts in the Oracle financial system that had not yet exceeded Council's authority. All recommendations made by Hudson and Henderson have either already been implemented or were included as part of the recommendations the City will focus on implementing. The auditors review did not identify any significant variance, pattern or change in activity associated with any amendment to an agreement.

The review of the Aramark invoices did identify multiple billing rates being billed to the City. The Finance Department has been working closely with Aramark to audit the City's account and review the history of all invoices under the existing agreement. At the January 23<sup>rd</sup> Council meeting, the Finance Department informed Council that a credit of about \$50,000 would be issued back to the City due to incorrect billing. The City will continue to work with Aramark to complete monthly audits of our account to ensure the billing rates are being properly monitored.

City staff worked with Mr. Deis to develop an Administrative Directive which defines various City department roles in ensuring compliance with Title 8, Chapter 3 of the Municipal Code related to the purchasing and contracting activities of the City. In addition, the policy outlines the spirit and intent of the Council approval limit of goods and services exceeding \$50,000. The Purchasing Division is also working on developing a Purchasing Policy which will focus on defining approval limits for goods and services under \$50,000 and provide policy requirements for formal bidding and exceptions to formal bidding. This Purchasing Policy will define the roles and responsibilities for the Purchasing Division and other City departments. The first draft of the Purchasing Policy will be presented to the Finance Committee by the April 2018 Finance Committee meeting.

**FISCAL IMPACT:**

There are no fiscal impacts or budget appropriations sought as a result of approval of this informational report/update. The goal for this purchasing review is to provide more controls over City expenditures which will result in savings to the City in the long run.

Approved by:

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DeAnna Christensen, Director of Finance

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Joseph P. Lopez, Interim City Manager

Attachments:

1. Modesto Purchasing Implementation of Recommendations
2. Hudson and Henderson Audit Report I
3. Hudson and Henderson Audit Report II