

CITY OF LAGUNA NIGUEL

AGENDA ITEM CITY COUNCIL

OCTOBER 3, 2017

TO: Honorable Mayor and Council Members

FROM: Stephen Erlandson, Interim City Manager/Director of Finance

SUBJECT: Status on Purchasing

SUMMARY: Based on an ongoing evaluation of the City's purchasing procedures to enhance the City's current processes, actions are currently being implemented to improve the City's purchase order and contract processes. These actions will further enhance transparency, strengthen internal controls, and improve financial accountability to residents. It is recommended that the City Council receive and file the status report.

BACKGROUND

Based on an ongoing evaluation of the City's purchasing procedures to enhance the City's current processes, the following actions are currently being implemented to improve the City's purchase order and contract processes:

1. **Conduct Employee Training:** In June and July 2017, the City held two purchasing training sessions to educate staff on the City's Municipal Code and Purchasing Policy. Staff was guided through the purchasing process and educated regarding their roles and responsibilities. In the future, training sessions will be scheduled, as appropriate, to further communicate any changes to the purchasing or contract processes.
2. **Develop a Financial Vendor Report and Contract Tracking Form:** In August 2017, the Purchasing Manager distributed a vendor balance report and a contract tracking management form to the departments. The vendor balance report assists departments in their review of current expenditures for their respective vendors and will be sent to the Department Directors after each warrant run. The tracking form assists in managing contract spending levels on a real-time basis at the department level. This ensures compliance with the Purchasing Policy's \$25,000 cumulative vendor threshold.
3. **Perform an Operational Audit:** At the August 15, 2017 City Council meeting, Council directed staff to begin preparing a scope of work for an engagement by an independent firm to review or audit the operational aspects of citywide purchasing and contract processes. The City Council approved the scope of work and authorized staff to issue a Request for Proposals (RFP) during the regularly scheduled City Council meeting of

September 5, 2017. The purpose of this engagement will be to evaluate the level in which the City's operating procedures are effectively and efficiently functioning with respect to purchasing and contract administration. After a qualified firm is recommended, a professional services agreement and a corresponding budget appropriation will be placed on a future Council meeting agenda for approval.

4. **Compile a Contracts Report:** Staff is continuously reviewing all vendors to identify existing contracts that require additional compensation or scope modifications, along with potential new contracts currently in process. Staff presented a list to the City Council during the regularly scheduled Council meeting of September 19, 2017.
5. **Investment, Banking, and Audit Committee (IB&A):** During the regularly scheduled Council meeting of September 19, 2017, the City Council directed staff to place an item on the September 27, 2017 IB&A Committee agenda requesting that the IB&A Committee review the City's contracting procedures. The IB&A Committee was not able to complete its review during this meeting; however, a special meeting of the IB&A Committee will be held within 30 days to continue this task. The intention of the IB&A Committee's review of contracting procedures is to achieve the following: (1) compare base contracts to actual historical expenditures, (2) improve the budgetary process to adjust the base contracts to better estimate the anticipated annual expenditures prospectively, and (3) provide added transparency to the City's budgeting and spending process.

While the City's contracting practices have been in place for its entire history, the City is moving forward in the right direction in the form of the above improvements. Staff emphasizes that (1) there were no unaccounted for or missing funds under the prior contract practices, (2) all work performed by City vendors was requested by City staff within the budgeted amounts approved by the Council, (3) all work has been performed by the vendors as requested, and (4) there are no vendors claiming that they are owed funds beyond the amounts budgeted. Through the additional oversight by the IB&A Committee, the City will enhance its transparency of the actual costs of its contracts.

6. **Implement New Contract Terms:** The contract terms for new and amended contracts will coincide with the City's fiscal year (July 1 – June 30) to assist the departments with budgeting. The City intends to enter into multi-year agreements to allow for more accurate planning for programs and services.
7. **Upgrade to an Integrated Municipal Enterprise Resource Planning Software Solution:** The new finance software system is one of the largest investments to help better monitor contracts and purchases. Among one of the many key features of the new electronic system is the stoppage of payments to vendors if invoices exceed the contract amounts. This will alert project managers to review their contracts to ensure there are sufficient funds before making payments. The project implementation period takes approximately 9 to 12 months, with the system expected to be fully operational by late Summer or early Fall 2018.

The City is taking great strides to work together to identify solutions to better enhance transparency, strengthen internal controls, and improve financial accountability to residents.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

RECOMMENDATION

That the City Council provide direction to staff related to the aforementioned actions undertaken to enhance the City's purchasing and contracting procedures.

PREPARED

BY:



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REVIEWED

BY:



Terry Dixon
City Attorney