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Missouri State Auditor

City of St. Louis
Information Technology
Services Agency

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Office of the
Missouri State Auditor
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The following findings were included in our audit report on the City of St. Louis, Information Technology Services Agency.

The City of St. Louis Information Technology Services Agency (ITSA) is responsible for the City Wide Area Network (WAN) and provides IT functions to 109 city of St. Louis departments and city-related agencies.

Significant concerns were noted regarding the city's contractual relationship with a consultant that provided network systems services to the ITSA. The city awarded a contract in 2005 to United Forensics, a network services consulting company, to provide various maintenance and upkeep services for the city's computer network. The city paid United Forensics approximately \$1 million from 2005 to 2008. The ITSA did not retain adequate documentation regarding the award of the United Forensics consulting contract in 2005 as required by city rules and regulations. In addition, the exact value of the approved contract amount was not clear.

The ITSA and the city approved annual contract extensions with United Forensics that significantly increased the total value of the contract and the hourly rates to be paid by the city; however, these contract extensions were approved without considering proposals from other vendors. The original value of the contract was not to exceed \$194,000 for fiscal year 2006, increased to \$450,000 for fiscal year 2007, and also set at \$450,000 for fiscal year 2008. In addition, the hourly rates paid by the city for contractual services increased significantly in fiscal year 2008.

During the first quarter of 2008, one of the owners of United Forensics created a company called Access Forensics. The ITSA began utilizing the services of Access Forensics and discontinued utilizing the services of United Forensics. The ITSA did not adequately document the reasons for discontinuing the services of United Forensics, and it appears the city may have made payments to Access Forensics without a valid written contract.

The ITSA approved payments to United Forensics for services that appeared unreasonable or were not specifically allowed by the contract including administrative costs, holiday pay, unspecified and duplicate charges, and charges at unauthorized billing rates.

Also included in the audit are recommendations related to other contracts and software agreements

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YELLOW SHEET

CITY OF ST. LOUIS
INFORMATION TECHNOLOGY SERVICES AGENCY

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STATE AUDITOR'S REPORT



SUSAN MONTEE, CPA
Missouri State Auditor

To the Honorable Mayor
City of St. Louis, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of St. Louis. The city engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2008. To minimize duplication of effort, we reviewed the CPA firm's audit report. We have conducted an audit of the City of St. Louis Information Technology Services Agency. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2008. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Determine if the agency has adequate internal controls over significant management and financial functions.
3. Determine if the agency has complied with certain legal provisions.

Our methodology included reviewing written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the agency, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with

behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the agency's management and was not subjected to the procedures applied in our audit of the agency.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of St. Louis Information Technology Services Agency.

Additional audits of various officials and departments of the city of St. Louis fulfilling our obligations under Section 29.230, RSMo, are still in process, and any additional findings and recommendations will be included in subsequent reports.



Susan Montee, CPA
State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CIA, CGFM
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF ST. LOUIS
INFORMATION TECHNOLOGY SERVICES AGENCY
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Network Services Contract

Significant concerns were noted regarding the city's contractual relationship with a consultant that provided network systems services to the city's Information Technology Services Agency (ITSA). These concerns include inadequate documentation for the award of the contract and contract extensions, and billings that appear questionable or did not agree to the terms of the contract.

The city awarded a contract in 2005 to United Forensics, a network services consulting company, to provide various maintenance and upkeep services for the city's computer network. Annual contract extensions were approved by the city. During 2008, one of the owners of United Forensics formed a company named Access Forensics, and the ITSA began utilizing the services of this company. From 2005 to 2008, the city paid United Forensics approximately \$1 million and Access Forensics approximately \$100,000.

- A. The ITSA did not retain adequate documentation regarding the award of the United Forensics consulting contract in 2005. As a result, the exact value of the approved contract amount was not clear.

For the award of any professional services contract in excess of \$5,000, City of St. Louis Ordinance 64102 requires the formation of a selection committee to recommend and approve each contract. The selection committee is required to follow the rules and regulations adopted by the city's Board of Public Service (BPS) for the selection of professional service providers. In accordance with the city ordinance, a committee was formed and the former ITSA director served as the committee chair. BPS rules and regulations require the committee chair to maintain a file of certain documents related to the contract selection process, including copies of all documentation related to how the selection committee was chosen (including conflict of interest disclosures from each committee member), all meeting notices and agendas, all correspondence related to the selection process, copies of all draft and final requests for proposals (RFP), all responses received from potential vendors, and meeting minutes and records of all votes in accordance with the Missouri Sunshine Law. Other than documentation of the final vote of the committee, ITSA officials could not provide documentation regarding meeting agendas and minutes. In addition, there was no documentation maintained of any proposals received other than the winning proposal, even though current city officials indicated they believe other proposals were received.

In addition, the exact value of the approved contract amount was not clear. The proposal submitted by United Forensics was dated August 19, 2005, and indicated

an annual contract cost of \$194,000. A letter from the former ITSA director to selection committee members dated September 8, 2005, indicated the contract's annual value would not exceed \$90,000. The selection committee meeting minutes dated September 16, 2005, indicate approval of the United Forensics proposal but did not include documentation of the total value of the contract. The former ITSA director submitted a contract payment authorization of \$194,000 to the City Comptroller's office dated September 27, 2005. Current ITSA personnel could not provide any reasons for the differing amounts or documentation to support the exact amount approved by the selection committee.

To ensure contracts are negotiated and selected in accordance with city policy and that the city approves the best proposal, the ITSA should ensure all required information is maintained regarding the solicitation, selection, and approval of professional services.

- B. The ITSA and the city approved annual contract extensions with United Forensics that significantly increased the total value of the contract and the hourly rates to be paid by the city; however, these contract extensions were approved without considering proposals from other vendors. The original contract approved for fiscal year 2006 did not include any language regarding contract extensions; however, the ITSA approved a contract extension for fiscal year 2007, and this contract extension included language that allowed for unlimited annual contract extensions.

The ITSA approved significant increases in the total value of the contract with United Forensics. The original value of the contract was not to exceed \$194,000 for fiscal year 2006, increased to \$450,000 for fiscal year 2007, and also set at \$450,000 for fiscal year 2008. In addition, the hourly rates paid by the city for contractual services increased significantly in fiscal year 2008. The original contract and the fiscal year 2007 contract extension included a two-tiered rate structure of \$100 or \$80 per hour, depending on the type of service provided. The fiscal year 2008 extension included a three-tiered rate structure of \$156, \$104, or \$78 per hour.

While contract extensions may be desirable under certain circumstances, it appears the ITSA should have followed the city's ordinance for procuring professional services prior to approving significant increases in the network services contract. Competitive contract negotiations, as required by city ordinance, help ensure the city is obtaining services at reasonable rates. At a minimum, the original contract should have included language allowing contract extensions and caps on annual increases in the contract's total value and hourly rates.

- C. During the first quarter of 2008, one of the owners of United Forensics created a company called Access Forensics. The ITSA began utilizing the services of Access Forensics and discontinued utilizing the services of United Forensics. The

former ITSA director notified the City Comptroller's office by letter to pay Access Forensics even though the city had not negotiated a contract with Access Forensics. The ITSA did not adequately document the reasons for discontinuing the services of United Forensics, and it appears the city may have made payments to Access Forensics without a valid written contract.

- D. The ITSA approved payments to United Forensics for services that appeared unreasonable or were not specifically allowed by the contract.
- 1) The city made payments of \$11,034 for administrative costs, such as time spent by United Forensics to prepare the monthly billings, and \$19,796 for holiday pay. Payment for holiday pay and administrative costs are not defined in the contract and these payments appear questionable.
 - 2) One invoice included duplicate charges of \$113 and another invoice included time spent for unspecified purposes totaling \$663.
 - 3) During fiscal year 2007, United Forensics billed for some hours at \$150 per hour; however, the highest rate authorized by the contract for fiscal year 2007 was \$100 per hour.

Due to concerns regarding potential improprieties related to this contract, the city discontinued utilizing the services of the contractor in 2008. The city plans to hire additional staff to perform the services provided by the contractor. In addition, the city is currently in litigation concerning bills submitted to the city by Access Forensics. The amount in litigation is \$164,453. The city should perform a thorough review of all billings received from and payments made to United Forensics and Access Forensics to determine any amounts owed and if the city should seek reimbursement for any amounts paid that did not comply with the approved contract.

WE RECOMMEND the ITSA:

- A. Ensure it fully complies with documentation retention requirements for professional service contracts in accordance with city rules and regulations. In addition, the ITSA should ensure documentation clearly indicates the value of contracts approved by the contract selection committee.
- B. Discontinue approving contract extensions that significantly increase the value of the contract unless the increases are approved by competitive negotiations. If the ITSA considers contract extensions to be desirable, the original contract should include language that allows contract extensions and caps on increased rates paid for services and the total value of the contract.
- C. Adequately document the circumstances when there is a change in ownership of a service provider, or negotiate a new contract if necessary.

- D. Ensure all contractual costs billed are reasonable and necessary and are specifically allowed under the contract and review billings received from and payments made to United Forensics and Access Forensics to determine any amounts owed and if the city should seek reimbursement for any improper payments. In addition, prior to entering into contracts for professional services, the ITSA should evaluate whether it would be more cost efficient to hire additional staff to provide the services.

AUDITEE'S RESPONSE

- A. *ITSA management concurs. Management will review city procurement procedures for professional service contracts by April 1, 2009.*

NOTE: The current members of ITSA's management team were not party to the particular contract reviewed by the state auditors.

- B. *ITSA management concurs. Management will review existing procurement procedures regarding contract extensions, recommending changes, if necessary, to ensure compliance by April 1, 2009.*

- C. *ITSA management concurs. Internal ITSA procedures will be reviewed and updated to ensure compliance by May 1, 2009.*

NOTE: The current members of ITSA's management team were not party to the particular contract reviewed by the state auditors.

- D. *Management will review existing procurement procedures regarding contractual costs, recommending changes, if necessary, to ensure compliance by May 1, 2009.*

2. Other Contracts and Software Agreements

The ITSA has renewed contracts without obtaining proposals from other vendors. Invoices submitted for one of these contracts do not contain sufficient detail of hours worked and tasks performed, and billings for some services provided by the other contractor were not specifically defined in the contract. The ITSA renews various software agreements without periodically evaluating the effectiveness of the software.

- A. The ITSA renewed contracts for internet services and mainframe support services without considering proposals from other vendors.
 - 1) The original contract for internet services was a 5-year contract negotiated in 2001. In 2005, a new 3-year contract was signed by the former ITSA director with the same vendor which replaced the existing contract. No proposals from other vendors were solicited prior to the signing of the new 3-year contract. This contract expired in November 2008; however, the

ITSA has continued to utilize the services of this vendor without negotiating a new contract or officially extending the existing contract. The city paid approximately \$390,000 for internet services under this contract for the year ended June 30, 2008.

- 2) The original contract for mainframe support services was negotiated in 1997 as a 3-year contract with an option to extend the contract for an additional 2 years. In 2001, the contract was extended for an additional 5 years, and in 2006, the contract was extended for an additional 3 years. No proposals from other vendors were solicited prior to signing the contract extensions. The hourly rate for services provided by this vendor only increased from \$65 in the original contract to \$75 in the current contract extension; however, the maximum annual value of the contract increased from \$55,000 in the original contract to \$130,000 in the current contract extension. During the year ended June 30, 2008, payments to the vendor totaled the maximum contract value (\$130,000).

ITSA officials indicated that these vendors are considered sole source providers because of their expertise and familiarity with the city's computer systems. However, periodic solicitation of proposals would ensure the city is receiving these services at a reasonable price. BPS rules for professional service agreements indicate the maximum compensation paid for any sole source engagement shall not exceed \$50,000.

In addition, the mainframe support services contract is for a sole proprietor who spends significant time working for the city and is paid \$75 per hour. During the 2 years ended June 30, 2008, this person billed the city an average of 140 to 160 hours per month. The ITSA should determine whether IRS rules and regulations would require this person to be considered a city employee instead of a contractor. In addition, the ITSA should evaluate this contract to determine if it would be more efficient or cost effective to hire a city employee to provide these services.

- B. Invoices submitted by the mainframe support services vendor do not contain sufficient detail. Invoices are submitted monthly and only include the total hours worked each month. Information regarding the specific days worked, hours worked each day, and specific tasks performed were not provided.

Some invoices provided by the internet services vendor included charges for services that were not defined in the contract. For example, the vendor billed the city for broadband services which were not specifically included in the contract.

To ensure amounts billed the city are reasonable and in accordance with applicable contracts, the ITSA should require detailed invoices which include the dates of service and specific tasks performed. In addition, all services billed to the city should be defined in the applicable contracts.

- C. The ITSA routinely renews software agreements without evaluating the benefits or effectiveness of the software. During the year ended June 30, 2008, the ITSA spent approximately \$530,000 on software renewals. The ITSA considers all software agreements as sole source providers. The city has several old software packages, including one used since the early 1980's for the Comptroller's financial system; however, the ITSA does not periodically evaluate whether better or more effective software could be used in place of these older packages. To ensure city funds are spent efficiently and effectively, the ITSA should adopt procedures to periodically evaluate the costs and benefits of all software agreements and whether other available software packages would be more efficient or effective.

WE RECOMMEND the ITSA:

- A. Periodically solicit proposals for all professional service contracts as required by city ordinance. In addition, the ITSA should evaluate the mainframe support services contract and determine if the contractor should be considered a city employee under IRS rules and whether these services could be provided by city employees.
- B. Require vendors provide detailed invoices of services provided that include dates of service and specific tasks performed. In addition, all billable services should be defined in the applicable contract.
- C. Periodically re-evaluate all software agreements prior to their renewal.

AUDITEE'S RESPONSE

- A. *ITSA management concurs. Management will review and update ITSA procedures for renewing contracts to ensure compliance by June 1, 2009.*
- B. *ITSA management concurs. Management will amend ITSA procedures for professional service contracts to require more detailed invoices by June 1, 2009.*
- C. *ITSA management concurs. Management will document an ITSA procedure to review all software agreements annually by June 1, 2009.*

HISTORY AND ORGANIZATION

CITY OF ST. LOUIS
INFORMATION TECHNOLOGY SERVICES AGENCY
HISTORY AND ORGANIZATION

The City of St. Louis Information Technology Services Agency (ITSA) is responsible for the City Wide Area Network (WAN) and provides IT functions to 109 city of St. Louis departments and city-related agencies. Michael Wise served as the ITSA Director until his resignation in December 2008, and this position is currently vacant. The agency employs 43 people and is organized in the following five units:

1. Operations System Services

This unit maintains the city's mainframe computer, as well as managing all purchased software. The Helpdesk is the first point of contact for any city employee having a computer issue (generally passwords or software issues). Helpdesk clerks are also responsible for maintenance of the backup tapes for city offices not located in City Hall and running reports for city agencies.

2. Network System Services

This unit is responsible for all aspects of the city's network. This includes servers, desk support, communications, and application support.

3. System Development Services

This unit is responsible for developing and maintaining computer programs for city agencies.

4. CityView Services

This unit oversees Mayor Francis Slay's initiative known as CityView, which is a program to improve city government performance. CityView works in partnership with each city department to create a performance measurement system. Each department creates a matrix to track the progress in reaching its goals.

5. Web Development Services

This unit is responsible for maintaining and hosting the city's public internet site. This unit develops web-related applications at the request of city agencies and hosts free websites for St. Louis neighborhoods and certain city funded non-profit agencies.