



Seattle Public Schools The Office of Internal Audit

**Internal Audit Report
Personal Services Contracts**

October 1, 2011 through May 31, 2012

Issue Date: September 11, 2012



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Executive Summary

Background

This audit was conducted in response to prior State Auditor's Office (SAO) reports dealing with personal services contracts. The SAO issued three reports between June 2010 and June 2011 that contained concerns associated with personal services contracts: the District's 2008-2009 Accountability Audit (June 21, 2010), the Special Investigation Report related to the Regional Small Business Development Program (February 23, 2011), and the District's 2009-2010 Accountability Audit (June 29, 2011). Our procedures were limited to determining if the issues identified by the SAO have been adequately corrected, and we did not conduct a full scope audit of personal services contracts.

The personal services contract recommendations noted in these SAO reports included:

- *Obtain sufficient, detailed documentation that supports the business purpose of charges to the District before paying vendor Invoices.*
- *Establish an additional layer of review for payments on Personal Services contracts.*
- *Require as part of District contracts that vendors cooperate with all external audit efforts during and after the term of their contracts at the risk of not being eligible for future contracts.*
- *Establish an effective internal audit function that would perform periodic audits of personal services contracts to ensure the District is receiving the benefit of its expenditures and that program managers are complying with District policies and procedures.*
- *Comply with its policies and procedures for personal services contracts.*
Note: This recommendation in the June 21, 2010 Accountability Audit was the result of services being provided before an actual contract was approved.

Audit Objective

To determine if the improvements made to the personal services contract process are adequate to correct previous concerns noted by the State Auditor's Office.

Audit Approach and Methodology

Personal services contracts were evaluated centrally, as well as during the schools audits we conducted throughout the year. In order to achieve our audit objective, we performed the following procedures:



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- Planned the audit in cooperation with central administration to ensure that we had a strong understanding of the personal services contract process.
- Reviewed relevant current policies and procedures to ensure that we had a strong understanding of the compliance requirements regarding personal services contracts.
- Reviewed the State Auditor's Office reports and the District's corrective action plans to understand the issues surrounding the findings.
- Tested personal services contracts and invoices initiated by both schools and central administration departments. Since we were focused on the procedures that the District implemented in response to prior audit findings, we primarily tested contracts that were initiated after September 30, 2011. Our procedures were limited to the issues identified by the State Auditor's Office, and our testing included the following attributes:
 - Contractor shall submit an invoice itemizing actual services and expenses after services have been rendered.
 - Certification of Services Rendered form is present with every invoice.
 - Certification of Services Rendered form has approval from a person authorized to spend the funds.
 - Services provided are within the scope of the contract.
 - Approvals are present based on the threshold policy.
 - All evidence suggests that the contract was properly completed and approved before any services were actually performed.
 - Timing of services is clearly stated on the invoice.
 - There is a classification checklist attached to the contract that clearly states that the services cannot be provided by the District employees.
 - Contract contains an adequate audit clause to ensure contractors cooperate with future audit concerns.

Conclusion

This was a limited scope engagement to follow up on specific concerns noted by the State Auditor's Office. We commend central administration for improving its monitoring efforts, and for actively identifying errors during their review process. However, there are still opportunities for improvement to ensure that contracts are finalized before services begin, and that District staff adequately understand all requirements. Our report also includes a recommendation to strengthen the right-to-audit clause included in the District's personal services contracts. Based on these results, the Office of Internal Audit will continue to monitor personal services contracts during each individual audit conducted during the 2012-2013 year.

Andrew Medina

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Findings and Recommendations

1) Monitoring Procedures:

Our audit procedures revealed that the improved monitoring procedures implemented by central administration have been successful in identifying issues associated with personal services contracts. Central administration reviews all personal services contracts before they are approved, and they also review all invoices to ensure that services did not begin prior to the contract approval date and that the invoices adequately identify the services rendered. Central administration also tracks instances of noncompliance and refers repeat offenders to District management for disciplinary meetings as necessary.

However, despite the improvements implemented by central administration, we noted that some of the issues raised by the State Auditor's Office continue to occur, and that there still may be some confusion regarding the personal services contract process. Specifically, we noted that:

- Confusion exists for personal services contracts that are paid out of funds other than the general fund. Some District staff believe that the *Personal Services Contract Procedures Manual* only applies to contracts paid out of the general fund, and that contracts paid with ASB funds, grant funds, or other outside sources are exempt from the required procedures.
- The turnover time necessary for central administration to approve a personal services contract may contribute to the reason why services continue to start before a contract is approved. The *Personal Services Contract Procedures Manual* does not identify the lead time schools and departments should give central administration to complete their review. Without such information, the schools and departments may be under the impression that the approval process is quicker than it actually is.
- Confusion exists as to whether or not central administration's approval is required before invoices can be paid, or before the services can even begin. We spoke with staff members who are under the impression that services can begin once the Principal or Department Manager approves the contract, and that central administration's approval is only necessary to pay an invoice.

Recommendation

We recommend that central administration:

- Add language to the *Personal Services Contract Procedures Manual* to clearly state if any personal services contracts are exempt from the *Manual's* procedures, or if the *Manual* applies to all contracts regardless of their funding source.
- Update the *Personal Services Contract Procedures Manual* to include the anticipated time necessary for central administration to approve personal services contracts. Such information will be useful to schools and departments who need to know how far in advance they need to plan their personal services contracts.



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- Continue to provide formal training to District staff with an emphasis on not allowing the contractor to start any work until the contract is approved by central administration.
- Consider creating a formal process to prioritize personal services contract approvals based on the date that the services are anticipated to begin. Formal procedures should also be considered for those personal services contracts that have a legitimate need for immediate approval.

Management Response

We concur with the recommendations. The Personal Services Contract Procedures Manual is being updated for clarifications and additions. Trainings were held at the Summer Leadership Institute in August 2012 on contracting, with emphasis on Personal Services Contracts. Trainings will continue; the next scheduled training is with school fiscals and administrators in October 2012.

2) Right-to-Audit Clause:

The District added the following right-to-audit clause to all of its personal services contracts:

8.5 Cooperation with District Auditor and State Auditor:

Vendor agrees to provide reasonable cooperation with any inquiry by either the district or State Auditor relating to the performance of this contract. The District has the right to audit records of the Vendor relating to payment or performance under this contract, for one year after completion of this contract. Failure to cooperate may be cause for debarment from award of future contracts.

This right-to-audit clause grants the District and the State Auditor the authority to audit the contractor's records for a period of one year after the completion of the contract; however, we do not believe that this is an adequate length of time to audit a contractor's records. Most investigations associated with vendor audits are complex in nature and frequently take longer than one year to complete. Also, many of the District's contractors are repeat vendors. If concerns are identified with a current contract, then a one-year limitation on conducting audits could prevent the District from investigating previous contracts with the same vendor.

Recommendation:

We recommend that the District lengthen the time period that the District or State Auditor can conduct an audit. We benchmarked right-to-audit clauses of other government entities in the state of Washington and found that many personal services contracts contain right-to-audit clauses allowing audits to be conducted between three and six years after the completion of a contract.

We provided District management with copies of the right-to-audit clauses we benchmarked with other government entities, as well as an article related to right-to-audit clauses and a sample right-to-audit clause published by the Association of Certified Fraud Examiners. We recommend that District management review this reference material to determine if any additional changes



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should be made to the District's personal services contracts in order to adequately protect the District and ensure ongoing accountability and transparency.

Management Response

We concur with the recommendation to lengthen the audit period to 3 years and will adjust the Personal Services Contract language. Additionally we will review the samples provided to determine if improvements should be made to the clause currently in the contract.