



DATE: June 14, 2016

TO: JOHN RUSSO, CITY MANAGER

FROM: CHERYL JOHANNES, INTERNAL AUDIT MANAGER  
VINCENT PRICE, SENIOR INTERNAL AUDITOR

CC: TONYA KENNON, LIBRARY DIRECTOR  
MARIANNA MARYSHEVA-MARTINEZ, ASSISTANT CITY MANAGER  
ALEX NGUYEN, ASSISTANT CITY MANAGER  
AL ZELINKA, ASSISTANT CITY MANAGER

RE: RIVERSIDE PUBLIC LIBRARY – REVIEW OF ACTIVE CONTRACTUAL AGREEMENTS  
(CONSULTING ENGAGEMENT)

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Periodically Internal Audit is requested to do thorough and impartial data collection, analysis, and reporting of a program, service, or function, which results in an assessment report for management. At the request of the Library Director, an Assessment of Library Operations was included in the Internal Audit Workplan for FY 2015/16. The specific objective of the requested consulting engagement included in this assessment report was to:

- Review active contract agreements/PSAs to ensure terms and conditions are being met by all parties.

Library assessments previously completed during this fiscal year were a follow-up review of the February 2012 Performance Audit (Use of Donations, Trusts and Library Minor Gift Fund), and an assessment on financial operating transactions (non-personnel).

We thank the Library Director and staff for their cooperation during the assessment.

Please contact Internal Audit if you have any questions or comments regarding the attached summary.

## BACKGROUND

The City, through the Library Department, operates the Riverside Main Library and seven (7) branch libraries within the Riverside city limits. Similar to several other City departments, the Library utilizes third party arrangements (both lease contracts and professional services agreements<sup>1</sup>) for various services, including:

- Collection Services;
- Equipment Leasing;
- Software Licensing and Maintenance Services; and
- eBook Services.

The table below shows the Library's Department's expenditures for professional services<sup>2</sup> (GL object 421000) for the current fiscal year through May 31, 2016.

Division	Original Appropriation	Appropriation Adjustments	Encumbered	Expenditures
Administration	\$ 169,152	\$ 10,141	\$ 41,697	\$ 150,646
Neighborhood Services	134,800	3,378	44,771	106,315
Measure I	73,105	0	789	63,452

Source: Trial Balance from City Financial System (IFAS).

## SCOPE and METHODOLOGY

Our assessment covered contract/PSA administration practices currently in place, and relied upon the following to assess the overall control environment and internal processes in planning for our review:

- Research material from various sources for suggested-best practices for contract administration;
- Discussions with the Library Department Administrative Services Manager;
- Various City administrative policies and applicable municipal code and/or City charter sections;
- Review and testing of active contracts/PSAs; and
- Data from the City's financial system, IFAS.

A total of four (4) contracts were reviewed during the assessment. To meet the engagement objectives, testing for the contracts consisted of:

- Determining if City policies and procedures were followed for selection of the service provider (as applicable);
- Determining if the agreements contained relevant terms, conditions, responsibilities and liabilities typically included in contracts; and
- Determining if a process/procedure was in place to monitor the contracts to ensure services were being provided consistent with contractual terms.

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<sup>1</sup> Per City policy all agreements/contracts/PSAs are required to be reviewed and by the City Attorney's Office, signed by the City Clerk, and filed with the City Clerk (documents are available for review on the City's online document management portal).

<sup>2</sup> Some line items in this account include professional services that are shared with other departments, such as landscaping services and protection services (security). The Library Department does not manage these contracts and therefore they were exempt from this assessment.

## OBSERVATIONS and RECOMMENDATIONS

Overall, we found that the Library Department has adequate controls in place to ensure contracts/agreements with third parties are consistent with City policies and procedures. To further strengthen controls, we have noted the following recommendation that merits Library management's attention:

**Strengthen third party oversight/management practices to ensure contractual covenants are adhered to.**

Best practices recommend that departments retain accountability for every third party arrangement entered into, including development of a risk management process that includes<sup>3</sup>:

- Policies, procedures, and controls to oversee the third party's activities and performance;
- Ongoing oversight of third party performance, including periodic assessments of costs, compliance management, acceptability of service levels, and unforeseen risks; and
- Documentation regarding both the periodic assessment of a third party's performance and the due diligence that you performed to arrive at your assessment.

Departments with financial agreements in place with third parties should perform appropriate due diligence to ensure their best interests are being served. The nature of services being provided should dictate the periodic monitoring process established, and an annual assessment should be conducted to ensure that the third party is meeting or can continue to meet the terms of the contract agreement. The City's exposure to operational and financial risks can be heightened if compliance to contractual agreements is not monitored timely.

Internal Audit discussion with Library personnel and review of third party contract agreements in place revealed that while contracts/agreements were established and retained consistent with City policies, a documented contract monitoring process has not been instituted to ensure contractual terms are adhered to.

***Recommendation: Library management should develop a documented process to ensure contract provisions for all applicable third party agreements are periodically monitored for compliance. A contract review of vendor performance should be conducted on an annual basis.***

**Management Response:**

The Library carefully selects vendors and contractors for agreements using established policy and procedures from the City's Purchasing Department. Costs of agreements are determined upfront and upon renewal, are compared against other competitors, if any, for optimal cost savings to the Library. Quality control is met with periodic and frequent communication during the contract period. The department welcomes input from the Internal Audit team to develop a documented process for contract review and compliance.

Internal Audit will follow-up in 12-18 months on the status of implementing recommended action plans. We sincerely appreciate the cooperation extended by the Library Department during our assessment.

Respectfully,

Vincent Price  
Senior Internal Auditor  
City of Riverside – Internal Audit Division

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<sup>3</sup> Office of Thrift Supervision Thrift Bulletin TB 82a, Third Party Arrangements.