

INFORMATION CALENDAR

November 19, 2019

**To:** Honorable Mayor and Members of the City Council  
**From:** Jenny Wong, City Auditor *JW*  
**Subject:** Alignment of Processes with Modernized Contract Registration Workflow

INTRODUCTION

After conducting an assessment of our office's workflow with the city's contract process, I am updating the process to realign with auditing best practices. Auditing standards spell out the importance of using public resources effectively and efficiently. To ensure the most appropriate use of City resources, current technological and operational updates will now replace my office's role and workflow in contract registration. This will provide the following benefits: allow my office to more effectively audit contracts in a way that reflects community expectations and reduce administrative obstacles to processing contracts in a timely manner.

With the implementation of the City's new financial system, numbering and registering of contracts now takes place in Finance. While the Charter and the Code state that my office numbers, registers, and countersigns City contracts my office's only role for me is to sign as registrant. This no longer makes sense because the City's new system automatically numbers and records contracts to the City's system of record. When the Charter was written in 1895, and the Code updated in 2006, those functions were performed by staff using now antiquated, paper-based systems. Recent technological changes have made those processes ineffective and redundant. Our work is now an unnecessary extra step that takes up more time, thus slowing the workflow for completing the contract process.

In order to make City operations more efficient and to reflect the current process, I have designated the responsibility to countersign contracts as registrant to the Finance Department to better reflect that numbering and registering currently taking place in Finance. In my role as the City Auditor, I am authorized to delegate this function. Currently, my Deputy City Auditor for Payroll Management and Audit Manager are also authorized to countersign contracts as registrant. Similarly, the Budget Manager and the City Manager have delegated their authorization to specific staff members, in some cases to streamline workflow processes and execute contracts. Over the next year, I will be working with the City Council to update both the City Charter and Code to better reflect current City practices in this area.

### FISCAL IMPLICATIONS

The City will save approximately \$11,000 a year by our restructuring of our workflow to remove work already done by Finance Department personnel. My office spends approximately 167 in staff hours each year performing contract registration activities, for a fully burdened cost of over \$14,000. There will be a minimal transfer of work to the Finance Department who will now countersign contracts by taking the Enterprise Risk Management Application (ERMA) system generated contract number, recording it on the legal document, and verifying those steps with the executed stamp, which has also been signed to confirm registration took place in Finance. My office estimates that this will take approximately 17 work hours per year for an estimated cost of \$3,000.

By realigning contracting processes into their proper workflow, the City Auditor's Office can shift its resources into conducting additional performance audits, including audits of City contracts and the contracting process, helping to ensure public funds are spent appropriately.

### CURRENT SITUATION AND ITS EFFECTS

Currently, my office is stated as the contract registrant. However, we no longer do that due to Berkeley's new financial system, Enterprise Risk Management Application (ERMA), which automatically numbers all contracts and, thus, serves as the City's official system of record. Additionally, prior to contracts reaching my office, the Finance Department and Budget Office have already performed their work verifying that contracts include required documentation and that there is budgeted funding for the project. Further, the City Manager has already executed the contract before it reaches my office. Keeping the City Auditor as the contract registrant is inconsistent with current practice and an inefficient use of resources. It results in a "rubber stamp" process and lack of transparency.

The Finance Director agrees with my office's assessment that the contract registrant process is in alignment with Finance staff's work and their management of ERMA, the City's system of record for contracts. The Finance Department will take the responsibility of countersigning all contracts as designated by me as registrant. We have met on this issue several times since I took office in December 2018 and I am confident that this will help both of our departments streamline the contracting process by removing unnecessary steps in finalizing contracts.

It is essential with the implementation of new technology to align workflows with automated processes. This includes removing obsolete processes. Because the City's contracting process has not been aligned to reflect the ERMA implementation, my staff must log contracts in a standalone spreadsheet for the sole purpose of tracking that contracts were sent to my office. This represents a redundancy that does not add value yet results in frequent and irregular interruptions to workflows across the City.

Using resources to audit contracts, for example, will be one way to better increase accountability and transparency rather than continuing with an outdated redundant practice. Each year, my team and I publish an audit plan with the goal of maximizing taxpayer dollars and delivering top-quality services. We select audit topics based on a number of risk factors including financial loss, safety/health, reputation, compliance, and misinformation. My fiscal year [2020 audit plan](#) will begin to audit some component of contract controls currently in place to evaluate and ensure performance, compliance, and proper City oversight.<sup>1</sup> This will provide City staff, elected officials, and the public with an independent analysis of the contracting process and other contract risks, as well as recommendations for increased controls and accountability.

### BACKGROUND

The Office of the City Auditor was created with the adoption of the first City Charter in 1895. Until the late 1970s, the office primarily acted in the role of comptroller, performing and supervising accounting practices and financial reporting. This included examining bills, claims, and demands against the City, issuing checks for payment, and ensuring that the correct budget appropriation had been made as well as numbering and registering contracts for the entire City.

In 1977, the City transferred the accounting division to the Finance Department so that routine daily financial activities would be under the direction of the Finance Director. This came as a result of multiple professional studies that each concluded that the *“accounting function is one that should be performed by persons other than those who are responsible for auditing (inspecting) the accounting function.”* The transfer recognized that the role of the City Auditor has more depth than processing daily accounting transactions and that by moving that work to the Finance Department, the City Auditor’s Office could more effectively use its resources to *“serve as a check on the managerial effectiveness of city programs.”* In 2006, the then City Auditor revised Berkeley Municipal Code Section 2.24.050 to reflect the transfer that took place in 1977. That code states that, *“Responsibility for performing municipal accounting and non-payroll payment functions have been delegated to the Finance Department.”*

In November 2018, the City began using a new system for accounts payable transactions called ERMA. ERMA automatically assigns a unique registration number to contracts when Finance personnel approve the request for budgeted contract funding. Due to that process, ERMA now acts as the City’s official system of record for contracts. This removes the need for my office to *“number and register”* contracts as stated in Section 65 of the City Charter. This also results in a need to designate the Finance Department as the responsible department that countersigns by taking the ERMA system generated contract number, recording it on the legal document, and verifying those steps with the executed stamp, which has also been signed because the

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<sup>1</sup> City Auditor’s Fiscal Year 2020 Audit Plan: <http://bit.ly/2VBJwDQ>

numbering and registering process takes place in the Finance Department. Keeping the City Auditor as registrant countersigner for contract registration is inconsistent with actual processes.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with this report.

CONTACT PERSON

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