



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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December 29, 2014

Curtis Skouby, PE, Director
Department of Public Utilities – Water Division
1640 S. Kingshighway Boulevard
St. Louis, MO 63110-2285

RE: Contract Review (Project #2014-CN11)

Dear Mr. Skouby:

Enclosed is the Internal Audit report on the review of the Water Division's accounting software license and services agreement with SunGard Public Sector, Inc. The review covered the period September 1, 2012 through August 30, 2013. A description of the scope of our work is included in the report. Fieldwork was completed on September 17, 2014.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Sincerely,

Mohammad H. Adil, CPA, CGMA
Internal Audit Supervisor

Ron Steinkamp, CPA, CIA, CFE, CRMA, CGMA
Internal Audit Advisor

Enclosure

CC: Perla Burk, Fiscal Manager II, Department of Public Utilities – Water Division



CITY OF ST. LOUIS

DEPARTMENT OF PUBLIC UTILITIES – WATER DIVISION

SOFTWARE LICENSE AND SERVICES AGREEMENT

SUNGARD PUBLIC SECTOR, INC.

SEPTEMBER 1, 2012 THROUGH AUGUST 30, 2013

INTERNAL AUDIT PROJECT #2014-CN11

DATE ISSUED: DECEMBER 29, 2014

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
DEPARTMENT OF PUBLIC UTILITIES – WATER DIVISION
CONTRACT REVIEW
SUNGARD PUBLIC SECTOR, INC.
SEPTEMBER 1, 2012 THROUGH AUGUST 30, 2013**

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CONTRACT REVIEW
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SEPTEMBER 1, 2012 THROUGH AUGUST 30, 2013

SUMMARY

Background

The Software License and Services Agreement (the Agreement) was awarded to the SunGard Public Sector, Inc. (the Contractor) on September 1, 2012 for a period of one year. The Agreement was approved by the Department of Public Utilities – Water Division. The purpose of the Agreement was to provide accounting software and maintenance services for the Water Division. The Agreement was authorized by City Ordinance 65597 and the amount of the Agreement was \$105,770.00.

Purpose

The purpose of Internal Audit’s review was to determine if the Contractor complied with the terms, conditions, and various provisions of the contract.

Scope and Methodology

Inquiries were made and tests were performed regarding the Contractor’s compliance with the Agreement. The scope of the review was from September 1, 2012 through August 30, 2013.

Conclusion

We found no evidence to suggest that the Contractor did not fully comply with the terms, conditions and various provisions of the Agreement. However, we did find opportunities for improvement on the part of the Water Division.

Current Observations

We noted the following observations and opportunities for improvement:

1. Sole Source Contract
2. Prevailing Wage Rate
3. Audit Clause
4. Performance Bond

These observations are discussed in more detail in the *Detailed Observations and Recommendations* section of this report.

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SUMMARY

Management Response

An exit conference was conducted with the Water Division on December 23, 2014. In attendance from the Water Division were:

- Curtis Skouby, PE, Director of Public Utilities
- Perla Burk, Accounting Manager II
- Tom Skillman, Data Processing Manager

Internal Audit was represented by:

- Mohammad Adil, Internal Audit Supervisor
- Chance Key, Auditor I

The report observations and recommendations were discussed in detail at the exit conference.

Management of the Water Division subsequently provided a written response to Internal Audit on December 24, 2014, which has been incorporated into this report.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Sole Source

The Water Division selected the Contractor through sole-source procurement. However, it did not appear that the requirements of ordinance 64102 or the Board of Public Service (BPS) Rules and Procedures were followed.

Ordinance 64102 requires the formation of a selection committee to recommend and approve awards of any Professional Services Agreement (PSA) in excess of \$5,000. The ordinance further requires that the selection of a professional service contract be governed by the rules and procedures of BPS, specifically:

- The maximum compensation paid for services for any sole-source engagement shall not exceed \$50,000.
- The selection of a committee that is informed of:
 - The purpose of reviewing a sole-source engagement.
 - The method of payment and amounts.
 - Why sole source procurement is appropriate.
- The Committee Chair retains in a PSA file accurate and complete minutes of the proceedings for which the procurement was authorized.

We found no evidence to suggest that Ordinance 64102 and the BPS' rules and procedures were followed by the Water Division.

Recommendation

It is recommended that the Water Division follow City Ordinance 64102 and BPS Rules and Procedures when procuring sole-source services.

Management Response

The Water Division entered a contract to upgrade the Division's Financial Accounting system to improve reporting. Water Division management made a decision not to seek other software vendors because the Water Division was upgrading one portion of an integrated software package and alternate products are not a realistic option. SunGard, the current software vendor, is also the provider of the Customer Information System which is being used for Water and Refuse Billing. The upgrade maintains the existing full integration with the Customer Information System. Full integration of financial and customer information systems is critical to the Water Division's ability to complete and publish timely monthly and

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Continued...

fiscal year-end financial reports to meet the continuing covenant agreement of the Water Revenue Bonds.

The Water Division has a fully executed contract Software License and Services Agreement per Comptroller's Office document number 64463. This contract was approved as to legal form by the City Counselor. The contract was also approved by the Board of Estimate and Apportionment and the Comptroller.

In the future, the Water Division will follow City Ordinance 64102 and BPS Rules and Procedures when procuring sole source services.

2. Prevailing Wage Rate

The Contractor complied with the City's minimum prevailing wage requirements. However, the Agreement did not include provisions requiring the Contractor to pay its employees the minimum prevailing wage.

St. Louis City Revised Code 6.20.020 states that every service contract entered into with the City, whether negotiated or advertised, shall contain:

1. A provision specifying the minimum prevailing wage to be paid by the service employees.
2. A provision specifying the minimum prevailing fringe benefits to be provided to service employees.
3. A representation by the service contractor to abide by the terms of the Revised Code.

Recommendation

It is recommended that the Water Division comply with St. Louis City Revised Code 6.20.020 and ensure that the City's minimum prevailing wage rate provisions are included in all contracts and service agreements.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

2. Continued...

Management Response

The City's minimum prevailing wage provisions are not applicable on this contract because the vendor is located outside the City of St. Louis and all services were done and will be done off site. However, the Water Division will ensure that the City's minimum wage provisions are included in all applicable future contracts.

3. Audit Clause

The Agreement did not contain a right to audit clause. An audit clause in a contract gives the City the right to examine the books and records of the contractor to ensure compliance with the terms and conditions of the contract.

The absence of an audit clause may prevent the City from verifying that the Contractor is in compliance with certain terms and conditions of the contract.

Recommendation

It is recommended that the Water Division includes the right to audit clause in all of its contract agreements.

Management Response

The Water Division will require the right to audit clause on all future contracts.

4. Performance Bond

The Agreement did not contain a clause requiring the Contractor to maintain a performance bond during the life of the contract. The absence of a performance bond could expose the City to significant safety and financial risk in the event the Contractor cannot fulfill the terms of the contract.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

4. Continued...

Good management practices dictate that the Contractor submits a performance bond for the protection of the City's interests in the contract.

Recommendation

It is recommended that the Water Division require an adequate performance bond on all future contracts and service agreements.

Management Response

The Water Division has over 30 years of good business relationship with the contract vendor. During these years, the contract vendor has consistently delivered satisfactory services and met the terms of each contract.

In the future, the Water Division will require an adequate performance bond if the benefit of having a performance bond justifies the additional cost. In the event that the Water Division waives the performance bond requirement, adequate documentation will be available on file.