



ADMINISTRATIVE SERVICES DEPARTMENT

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AUDIT COMMITTEE STAFF REPORT

Meeting: November 15, 2021

Subject

HdL Contract and Refund Error Debrief

Recommended Action

Receive HdL Contract and Refund Error Debrief

Discussion

HdL Contract

Economic Development is a City function that has had a history of moving back and forth between the Community Development and Administration Department. During the first quarter of FY 2020-21, a decision to move this function from the City Manager's Division to the Community Development Department was approved by the City Manager based on the alignment of the function with the Department's operational goals and objectives. While this operational change was made, it was decided the budgetary changes would not be incorporated until the FY 2021-22 Adopted Budget.

Prior to and during FY 2019-20, the City's Economic Development function was managed in-house by a part-time Economic Development Manager. Subsequently, the employee left City service to work with HdL, an economic development service provider. In FY 2020-21, the City had an effective contract with HdL in the amount of \$170,000 per year.

These factors and the transition period created a challenge for both Administration and Community Development Departments to effectively manage the contract, services being rendered, and budget simultaneously throughout the year. Invoices received were routed to various departments and were not entered into the system timely which made it difficult for the departments to monitor the budgetary performance throughout the year. FY 2020-21 required additional services related to COVID-19 and the property acquisition of 10455 Torre Avenue and it was not until the second half of FY 2020-21 that staff became aware of services rendered exceeding the contract amount (\$170,000). A contract amendment was brought before City Council, but was not approved and

additional information was requested. To date, the City has not remitted payments in excess of the contract amount.

The functional transfer, both from an operational as well as a budgetary standpoint, is an irregular occurrence and resulted from management turnover in recent years. Contract management remains an essential responsibility for departments. As the City moves forward with the proposed internal audit work program, procurement, including contract management, will be reviewed and the findings and observations for improvement will be communicated to the Audit Committee upon completion.

Refund Error

In FY 2020-21, candidates running for City Council were required to pay \$2,860 in estimated candidate costs. Actual costs amounted to \$2,576, resulting in a candidate refund amount of \$284 subsequent to the 2020 election. Responsible Administration Department staff entered the invoice entry amounts in error. Rather than entering \$284, the actual cost of \$2,576 was mistakenly entered. This was then routed to the Department staff responsible for invoice approval and finally to Finance for review, processing, and payment. The essential internal controls and checks and balances were in place and operating effectively; however, this appeared to be an issue of human error, an inherent limitation to internal controls. A candidate received the incorrect refund and promptly notified the City. City staff took the matter seriously and corrected the error timely.

Sustainability Impact

No sustainability impact.

Fiscal Impact

No fiscal impact.

Prepared by: Zach Korach, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Approved for Submission by: Greg Larson, Interim City Manager

Attachments:

None.