CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: June 5, 2019

TO: Rushmore D. Cervantes, General Manager
Housing and Community Investment Department Los Angeles

FROM: Bob Wingenroth, Director of Auditing
Office of the Controller – Audit Services Division

SUBJECT: **IT PROFESSIONAL SERVICES CONTRACTING REVIEW**

The Office of the Controller conducted a review of Information Technology (IT) commodity procurement at the Housing and Community Investment Department Los Angeles (HCIDLA) to ensure its properly monitoring the use of IT professional services contracts, related payments are authorized, reasonable, and properly supported.

While management of each City department is responsible for designing, implementing, and maintaining its internal controls to provide reasonable assurance all IT professional service contract payments and purchases are authorized, reasonable, supported, and comply with established policies and regulations, the Office of the Controller assists management by performing periodic reviews of the effectiveness of these departmental internal controls. These reviews compliment, but do not in any way replace, management's assurance responsibilities.

Our review identified a few opportunities where HCIDLA can enhance its internal controls related to monitoring the use of IT professional service contracts, as detailed in the attached report.

We thank your management and staff for their cooperation and assistance during this review.

Attachment

RON GALPERIN
LA CONTROLLER

Housing + Community Investment Department Los Angeles (HCIDLA)
IT Professional Services Contracting Review
June 5, 2019

City of Los Angeles (City) departments use various Information Technology (IT) professional service contracts for unique, scientific, expert, or technical services of a temporary nature because the City's Information Technology Agency does not have all the resources or specialized services required by City Departments and the need for IT services can fluctuate greatly from year to year.

The Office of the City Controller conducts periodic IT professional services contracting reviews to assess how well City departments, such as HCIDLA, are doing monitoring the use of IT professional service contracts, ensuring the related payments are authorized, reasonable, and properly supported.

Compliance Review Results

While HCIDLA frequently meets with IT contracted staff on planned system/application upgrades or development, based upon a sample of IT professional service payments and interviews, certain control enhancements are necessary. Specifically:

- Transition plans should be developed to have HCIDLA employees trained to support and maintain systems/applications that have been implemented and to reduce an over reliance on professional service contractors to provide ongoing support and maintenance of a permanent nature.

- Formal performance metrics should be used to monitor the timeliness and associated costs of system/application upgrades.

- Documentation of IT contracted staff selections is needed to demonstrate that the selections had been made in a fair and objective manner, with the most qualified contracted staff being selected. Moreover, IT contracted staff working with sensitive or confidential information should undergo a background check.

- Tracking of new IT software development costs requires enhancement to ensure the Office of the City Controller is provided with accurate and complete information on software development costs for capitalization and reporting within the City's financial statements.

Key Facts

FACT #1
HCIDLA's Fiscal Year 2019 adopted budget is just over $88 million, with $12.5 million (14%) funded by the City's General Fund and $75.5 million (86%) funded by Special Funds, which includes federal and State grant funding.

FACT #2
HCIDLA has over 700 employees who facilitate the financing and development of housing projects, oversee social services and housing programs to assist low-income populations and special needs, and responds to City and State housing code complaints by conducting inspections and investigations.

FACT #3
HCIDLA's Fiscal Year 2019 adopted budget for Contractual Services was $15.4 million, a portion of which is dedicated for IT professional services.

FACT #4
Between July 2017 and February 2019, HCIDLA has paid one contractor $2.8 million for IT professional services.

FACT #5
In Fiscal Year 2016, the capitalization threshold for reporting new software acquired/developed decreased $250,000 or more to $5,000 or more.

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HICDLA - IT PROFESSIONAL SERVICES CONTRACTING REVIEW			
OPPORTUNITIES FOR IMPROVEMENT			
#	ISSUE	RISK	RECOMMENDATION	HCIDLA RESPONSE

#	ISSUE	RISK	RECOMMENDATION	HCIDLA RESPONSE
1	HCIDLA Systems Division relies heavily on professional service contractors for continued maintenance of implemented systems/applications when HCIDLA employees should be trained to maintain these systems/applications after implementation. For example, Housing Information Management System (HIMS) was completed in 2008. Since that time, HCIDLA has paid for the same IT contracted staff to support and maintain HIMS for over 11 years, costing over $1.7 million. According to HCIDLA management, they have not found a suitable IT employee to assume the support and maintenance of HIMS.	Overpayment for IT professional services that could be performed by City employees	1. HCIDLA's Systems Division should develop a plan and timeline to transition support and maintenance for implemented systems/applications to City employees.	**For the past two annual City budget submissions, HCIDLA requested additional Systems positions with the hopes of reducing the department's reliance on Contractors. HCIDLA successfully received two position authorities to replace contractors currently maintaining two of the Department's major systems in the Regulatory, Compliance and Code Bureau. HCIDLA will include new Systems positions in the FY'21 budget submission to maintain the remaining applications, thus reducing reliance on contracted services.**
2	Based upon interviews of HCIDLA employees and IT contracted staff, upgrades to certain IT systems and applications do not always have a defined scope or timeline. Formal performance metrics for IT system/application upgrades will help to monitor the use of IT contracted staff and ensure the upgrades completed are efficient and effective.	Waste of City resources.	2. HCIDLA's Systems Division should establish formal performance metrics to monitor the timeliness and associated costs of IT system/application upgrades.	**HCIDLA will develop an evaluation process of its existing IT systems and prioritize upgrades based on the results of the assessment.**
3	HCIDLA did not maintain adequate documentation to demonstrate the selection of sampled IT contracted staff was conducted in a fair and objective manner, with the most qualified staff selected from available IT professional service contractors. Further, HCIDLA had not ensured IT contracted staff with access to sensitive or confidential information had undergone background checks.	Unfair contracted IT staff selection. Inappropriate access to sensitive or confidential information.	3a. HCIDLA management should maintain adequate documentation to demonstrate IT contracted staff selections are conducted in a fair and objective manner. 3b. HCIDLA management should ensure IT contracted staff undergo a background check before being granted access to the City's systems containing sensitive or confidential information.	**HCIDLA will enhance its selection process and properly document the interview and rating process on the selection of qualified candidates. HCIDLA is amending its current IT contracts to require third-party background checks.**

| 4 | Although required to report new software development costs over $5,000 to the Controller's Office on an annual basis, HCIDLA has underreported certain costs. | Lack of transparency and compliance with the City's financial reporting requirements. | 4. HCIDLA's Systems and Accounting Divisions need to ensure costs related to new IT software acquired or developed are complete and accurately reported to the Office of the City Controller on an annual basis. | **HCIDLA will ensure the annual reporting for capitalized items are accurately reported.** |