



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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August 18, 2015

Dele Oredugba, Director
Information Technology Services Agency (ITSA)
1200 Market Street, Room 100
St. Louis, Missouri 63103

RE: Contract Review (Project # 2015-CN07)

Dear Mr. Oredugba:

The Comptroller's Internal Audit Section has completed a contract review of the AT&T Corporation agreement with the City. The purpose of the agreement was to provide managed internet services to the City owned locations throughout the City. Enclosed is the report covering the period September 1, 2013 through August 31, 2014. A description of the scope of our work is included in the report.

Fieldwork was completed on June 8, 2015. Management responses to the observations and recommendations noted in the report were received on August 4, 2015 and have been incorporated in the report.

This review was made under the authorization contained in Section 2, Article XV, of the Charter, City of Saint 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.

Respectfully,

Mohammad H. Adil, CPA, CGMA
Internal Audit Supervisor

Enclosure:

CC: Kieth Moore, Network Systems Manger





CITY OF ST. LOUIS

INFORMATION TECHNOLOGY SERVICES AGENCY (ITSA)

CONTRACT REVIEW

AT&T CORPORATION

SEPTEMBER 1, 2013 THROUGH AUGUST 31, 2014

PROJECT # 2015-CN07

DATE ISSUED: AUGUST 18, 2015

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
INFORMATION TECHNOLOGY SERVICES AGENCY (ITSA)
CONTRACT REVIEW
AT&T CORPORATION
SEPTEMBER 1, 2013 THROUGH AUGUST 31, 2014**

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INFORMATION TECHNOLOGY SERVICE AGENCY (ITSA)
CONTRACT REVIEW
AT&T CORPORATION
SEPTEMBER 1, 2013 THROUGH AUGUST 31, 2014

SUMMARY

Background

The AT&T Umbrella Agreement (Agreement) was awarded by Information Technology Services Agency (ITSA) to AT&T Corporation (AT&T) in 2010 and was renewed for a 3-year period commencing in September 2013 and ending on August 2016. The purpose of the Agreement was to provide managed internet service to City locations throughout the City. The contract amount for the period of the review was expected to be \$356,000. However, the total payments for this period amounted to \$386,043.93. The additional \$30,043.93 was for the access charges for the increased access speed of the internet service at the request of the City.

Purpose

The purpose of our review was to determine if AT&T complied with the terms, conditions, and various provisions of the Agreement.

Scope and Methodology

Inquiries were made and testing procedures were performed regarding AT&T's compliance with the Agreement. The scope of the review was from September 1, 2013 through August 31, 2014.

Conclusion

ITSA did not appear to have an adequate system of internal controls in place to ensure that all locations charged by AT&T for managed internet service were city owned locations and were receiving AT&T managed internet service.

Current Observations

We noted the following observations and opportunities for improvement:

1. Inadequate Verification of Managed Internet Service Locations
2. Competitive Bids Not Solicited
3. Agreement Did Not Have an Audit Clause

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

Management Response

ITSA declined an exit conference. However, management of ITSA provided written responses to the observations and recommendations noted in the report to Internal Audit on August 4, 2015, which have been incorporated in this report.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Inadequate Verification of Managed Internet Service Locations

AT&T charged for the managed internet service at sixty (60) City owned locations throughout the City. We verified these locations to ensure that they were City owned locations and were receiving the managed internet service.

We noted one instance where the location was not a City owned location and one instance where the internet services were not being utilized as follows:

- The location at 3537 South Kingshighway had not been a City location since September 2012. That was when the City formally requested in writing that the internet service for this location be terminated. However, AT&T has continued to bill the City for this location a monthly charge of \$393.52. The total payment for this location for our review period amounted to \$9,050.96.
- The location at 2900 Hickory Street is a City Recreation Center. According to Center personnel they were told several years ago that the Center did not have the proper equipment to receive internet service or access the network. Consequently, they have never utilized the internet service at this location. AT&T had, however, continued to bill the City for this location a monthly charge of \$393.52 or \$4,722.24 annually.

Recommendation

Internal Audit recommends that ITSA:

- Recover from the Contractor \$9,050.96.64 plus any additional amount paid since the end of our review period for 3537 South Kingshighway, a location that had not been a City location since September 2012.
- Provide proper equipment at 2900 Hickory Street location so that it can have access to internet service or discontinue the service immediately. In, addition, seek a refund for the period in question, if warranted.

Management response

- *The 3537 South Kingshighway overbilling will be disputed by ITSA.*
- *The Buder Recreation Center, located at 2900 Hickory Street, had the same MPLS and switching equipment as other Recreation Centers. It*

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was installed in the same time-frame as the others. There was some type of flooding in the basement of that facility. This resulted in damage to the equipment. It is unclear who, if anyone, reported to the staff that there was any equipment lacking. It is also unclear whether the damage was ever reported to ITSA.

2. Competitive Bids Not Solicited

ITSA did not obtain competitive bids prior to approving the AT&T Agreement. Competitive bids provide a choice of options for purchasing goods and services, which minimize costs and maximize benefits by selecting contracts with those firms, which best suit its needs.

The City Supply Division's Procedures states that bids and proposals are solicited through advertised procedures when the value of the purchase is estimated at \$5,000 or more.

Recommendation

Internal Audit recommends that ITSA establish a system of internal control to solicit competitive bids by advertising for all of its purchases of \$5,000 or more.

Management Response

In 2010, ITSA contracted with AT&T to upgrade the existing Internet connection from 15 MB/s to 100 MB/s. This was done under an existing Umbrella Agreement executed by the Comptroller's Office in January of 2009. No competitive bids were solicited as it was an upgrade to an existing service under an existing agreement. Then in 2011, AT&T informed ITSA that the Frame-Relay system that had been used by the City for Wide Area Network connections between many City facilities and City Hall was considered obsolete. Further, AT&T warned that prices on those circuits would increase fourfold if the City did not change them. In the interests of time, and costs, ITSA opted to replace the existing system with the AT&T MPLS system under the existing Umbrella Agreement. In 2013, ITSA renewed

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this contract, again under the existing Umbrella Agreement instituted by the Comptroller's Office.

While ITSA agrees that a competitive bid should, and will, be sought in 2016, it is impractical to replace the entire Wide Area Network system every three years. The amount of engineering, configuration and disruption to services is significant.

3. Agreement did Not Have an 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.

Absence of an audit clause from an agreement may prevent the City from verifying that the contractor is in compliance with terms and conditions of the agreement.

Recommendation

It is recommended that the ITSA establish a system of internal control to ensure that the right to audit clause is included in all of its contract agreements.

Management Response

An Audit Clause would be more properly covered in the Umbrella Agreement, as it contains all other legal and contractual issues. However, in future, ITSA will seek to include such a clause.