

SPECIAL AUDIT REPORT

# CITY OF OKLAHOMA CITY

July 1, 2002 through October 31, 2012



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

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# Oklahoma State Auditor & Inspector

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April 30, 2013

TO MAYOR MICK CORNETT:

In March 2000, the City of Oklahoma City embarked on an ambitious plan to improve many of the City's public safety systems, supported with a voter-approved ½-cent sales tax for 32 months. The City expected to receive more than \$100 million of revenue to purchase new public safety vehicles, replace outdated emergency warning sirens, and construct a new emergency communications facility. Of the projected revenue, \$20 million was allocated for several integrated public safety information technology projects. The City contracted with Affiliated Computer Services State and Local Solutions (ACS) to complete these technology projects.

Since approval of the sales tax in 2000, the City has faced various operating and financial obstacles associated with the integrated technology projects. Challenges include project implementation delays, a lawsuit filed by ACS against one of its subcontractors, and equipment obsolescence. In 2012, this case was further complicated when a City employee accused a colleague, the Public Safety Capital Projects Program Manager, of misappropriating and prepaying project funds for personal gain.

Our detailed audit procedures revealed no evidence to support the allegation that the Public Safety Capital Projects Program Manager misappropriated or prepaid project funds for personal gain. Although the ACS contract's complexity and the sheer volume of budget detail could lead to doubt regarding the veracity of contract payments, those charged with project governance should avoid such misunderstandings in an effort toward maintaining public confidence in the City's ability to aptly manage the dedicated sales tax revenue and associated projects.

In the course of this investigation, two facts were discovered that could represent causes for concern. First, the City does not appear to have any formalized controls that would safeguard against errors in ACS contract payments. Second, the City has hundreds of radios originally worth more than \$850,000 sitting unused in a storage facility. While both concerns impact a successful outcome for the integrated technology projects, one clearly represents a significant waste of taxpayer dollars.

Recommendations provided in this report are designed to assist the City lessen the risks associated with the public safety integrated information technology projects and avoid unnecessary and wasteful expenditures in the future. Additionally, systematic internal audit procedures conducted by the City Auditor, especially with such large-scale and complex projects, should help to timely alleviate obstacles and increase the likelihood of positive project outcomes while maintaining public trust.

A handwritten signature in blue ink, appearing to read "Gary A. Jones".

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

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## Introduction

Pursuant to the request of the City of Oklahoma City and in accordance with the requirements of 74 O.S. § 227.8, we performed a special audit associated with certain city contracts regarding the implementation of the Police Records Management System and the Municipal Court Records System for the period July 1, 2002 through October 31, 2012.

In March 2000, voters approved a one-half cent sales tax for 32 months to improve a number of public safety systems. Projects funded with the sales tax revenue included new police vehicles and equipment, a new emergency communications center, and the technological integration of the police, fire, and court systems in order to facilitate trans-departmental communication.<sup>1</sup>

Certain projects, including a Police Records Management System (PRMS) and a Municipal Court Management System (MCMS), were awarded by contract to Affiliated Computer Services State and Local Solutions, Inc. (ACS). According to the contract, ACS was responsible for integration services, software, and related hardware necessary to successfully implement various public safety systems for the city. ACS provided project management services throughout the term of the contract, and was responsible for any work performed by subcontractors. The contract was originally worth \$19.8 million, and work performed by ACS has resulted in payments to the company totaling more than \$19.5 million to date.<sup>2</sup>

Oklahoma City also maintained a Public Safety Capital Projects (PSCP) office, which was led by a Program Manager. The Program Manager served as the primary contact and communicator with ACS and managed most aspects of the projects, including budgeting and expenditures.

The projects were overseen by a Steering Committee comprised of the City Manager (or designee), the city's Information Technology Director, the PSCP Program Manager, and others.

In addition to the PSCP office, the City appointed 'functional teams' from each of the City's public safety departments, with a 'functional lead' for each team, to provide input on departmental needs and the capability of the chosen systems to fit those needs. Functional teams were to communicate regularly with the Program Manager to provide feedback

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<sup>1</sup> More information about these projects can be found on the city's website at [http://www.okc.gov/p&f\\_equip/index.html](http://www.okc.gov/p&f_equip/index.html).

<sup>2</sup> Original contract provided for primary work totaling \$18.8 million and \$1 million for additional software, services, and equipment.

throughout the projects, but specifically at times when certain project milestones were scheduled.

In September 2012, the Police Department's functional lead, Captain Bradd Brown, made a number of allegations regarding misconduct on the capital projects. The most significant of these allegations was that the PSCP Program Manager, Kerry Wagnon, had misappropriated and prepaid project funds for personal gain during his involvement with the projects. As a result of the request from the City, in addition to conversations with management and others involved in the projects, our audit focused on this specific allegation.

As our procedures do not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of the City of Oklahoma City for the period July 1, 2002 through October 31, 2012.

Failure to report commendable features in the accounting and operating procedures of the entity should not be interpreted to mean that they do not exist.

## Results

Though Captain Brown initially alleged that Mr. Wagnon had *misappropriated and prepaid project funds for personal gain*, we determined through discussions with him and other City personnel that the foremost concern was, specifically, *prepayment for personal gain*. Captain Brown believed that Mr. Wagnon had authorized payments to the contractor, ACS, for project milestones that had not been met, in an effort to secure employment with the company.

To address the *prepayment* aspect of the allegation, we reviewed all 75 invoices sent by ACS to the City and reconciled each of the payments recorded in the City's accounting system (PeopleSoft) to the pertinent section of the ACS contract.<sup>3</sup> We also interviewed City finance, budget, and PSCP personnel to gain a thorough understanding of invoice approval and payment processes. Additionally, we interviewed other City personnel involved in the projects to ascertain whether contract deliverables were in place.

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<sup>3</sup> PeopleSoft payments were provided by the Oklahoma City Finance Department and, according to the Finance personnel, represent all payments made to ACS by the City related to this particular ACS contract. SAI did not verify the completeness of this population.

With information obtained through interviews and document review, as well as the fact that Mr. Wagon continues his employment with the City, we determined that we have no evidence to support the allegation that Mr. Wagon authorized contract prepayments for personal gain.

## Observations

During the course of our investigation, we discovered two issues, indirectly related to our objective, that warrant further discussion. The first matter involves the City's current procedures for the approval and payment of invoices.

According to City personnel, the procedure for making payments to ACS included the following steps:

- 1) ACS sent invoices for completed work to the PSCP office;
- 2) The PSCP Office Administrator logged invoices by attributing them to the proper project and comparing to a contract payment schedule;
- 3) The PSCP Project Manager compared the invoice to the applicable contract provisions, signed and dated the document (indicating approval for payment) then would return it to the Office Administrator;
- 4) The Office Administrator copied the signed invoice for the office's files and then delivered the invoice to the Accounts Payable department; and
- 5) Accounts Payable entered the information into PeopleSoft, generated a voucher, and mailed the voucher to the payee.

In this process, the PSCP Project Manager's signature represented approval for payment of an ACS invoice. Functional leads' signatures were provided for certain project milestones, such as selected equipment testing and deliverables, but were *not* required for invoices prior to payment. Furthermore, the Program Manager appears to be the only individual comparing the invoices to the ACS contract provisions, with the City's Budget Office merely tracking expenditures by project, rather than by individual contract.

An effective internal control system requires safeguards designed to prevent unauthorized transactions from occurring or to detect them in a

timely manner after occurrence. The City's current invoice payment process does not appear to have any formalized safeguards in place outside of the PSCP office that would detect erroneous payments or prevent such in the future.



*M/A Com 500M radio currently in storage*

The second matter involves the purchase of radio equipment for police and fire vehicles. In 2006, Oklahoma City purchased approximately 876 M/A Com 500M radios to be installed in police and fire vehicles, at a cost of \$905,784. At some point during the year, after the City had begun to install the radios in the vehicles, the PSCP office and others involved in the project became aware that the radios were not functioning as intended; excessive data transmission on the city's airways caused radio users to experience delays when trying to make calls on the units.

The problems were significant enough for the PSCP office to explore equipment alternatives. The radios that had already been installed were then removed and replaced with other equipment, and the radios were subsequently placed in storage.

Steering Committee meeting minutes reflect limited discussion on this topic. Concerns about the radios are voiced and PSCP personnel acknowledge researching alternatives, but it does not appear that the Committee was aware of the monetary implication of the radios. Further, Committee interviewees only vaguely recalled a problem with the radios, and could neither remember the number of radios involved nor the associated cost.

Although the PSCP office voiced general concerns about the radios' capabilities to the Steering Committee as early as July, 2006,<sup>4</sup> radio purchasing continued through November of that year. When we inquired about their continued purchase in spite of the recognized problems, the PSCP Program Manager stated the following:

*"I think it was fundamentally a matter of fairness...We ordered the radios, and the radios did what they were advertised to do (even though we determined that their continued use for data networking*

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<sup>4</sup> Per email between PSCP office and SAI dated February 21, 2013; Steering Committee meeting minutes also reflect discussion of the topic in September, 2006.



*would not be in our best interest), so we honored our purchase. Since then, we continue to try and utilize them whenever possible.”<sup>5</sup>*

Current inventory records provided by the PSCP office show that of the 876 radios purchased, approximately 485 were installed and later removed. Forty radios were ultimately re-purposed for other City functions, and 12 were used for spare parts, leaving 824 intact radios in a City-owned storage facility.<sup>6</sup> At a cost of \$1,034 per unit, 824 unused radios equates to \$852,016 in obsolete inventory.



*Pallets of M/A Com 500M radios*

**Recommendations** • **Enhance Internal Controls in Invoice Approval and Payment Process**

As the PSCP Program Manager is currently the only individual responsible for verifying the existence of deliverables *prior to authorizing payments to vendors*, there are no other personnel involved with sufficient project knowledge that would have the ability to prevent or detect erroneous payments. If someone with the qualifications and knowledge base other than the Program Manager were required to review and sign invoices, their signature would represent the mitigating factor that is currently absent. Making such an improvement could help to avoid allegations of pre-payment in the future, and would safeguard not only project assets, but the personnel involved.

• **Audit High-risk IT-related Projects**

The PSCP projects, and the ACS contract in particular, could be considered high-risk for many reasons, including the value of the contract and the nature of the work performed. As multiple interviewees attested, IT equipment obsolescence can occur after a few short years, thus underscoring the need to purchase wisely.

The City originally spent \$905,784 on radios that were not ultimately used as intended, and more than 94% of that monetary investment rests in a

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<sup>5</sup> Email between SAI and PSCP office dated February 21, 2013.

<sup>6</sup> SAI visited the storage facility and opened one box to verify the contents, but did not inventory all radios. Inventory records provided by the City show radios' current status and are management's representation.

storage facility. It is unknown whether all of the radios could have been re-purposed, or whether the City could have re-sold the units in order to recoup a portion of their costs. Regardless of what course the City could have taken in this particular case, it is imperative that processes must exist to prevent similar losses in the future.

Though the limited scope of this audit precluded a detailed investigation of the technical aspects of the contract or other potential project control deficiencies, the City Auditor of Oklahoma City could perform such procedures. Systematically auditing similar projects might aid in prospective avoidance of such conflicts.



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