

Audit of Procurement for Services of \$25,000 or Less



Office of the City Auditor
Jorge Oseguera, City Auditor
Sean Arnold, Auditor
September, 2017

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

- The objective of this audit was to assess the effectiveness of the City's procurement for professional and non-professional services of \$25,000 or less, to determine whether existing controls were sufficient to ensure compliance with applicable laws and policies, and to reduce risk to the City.

Scope

- The scope of this audit was ostensibly service agreements of \$25,000 or less. However, our sample dataset and other examples include many contracts that ultimately exceeded \$25,000 after supplements.

Methodology

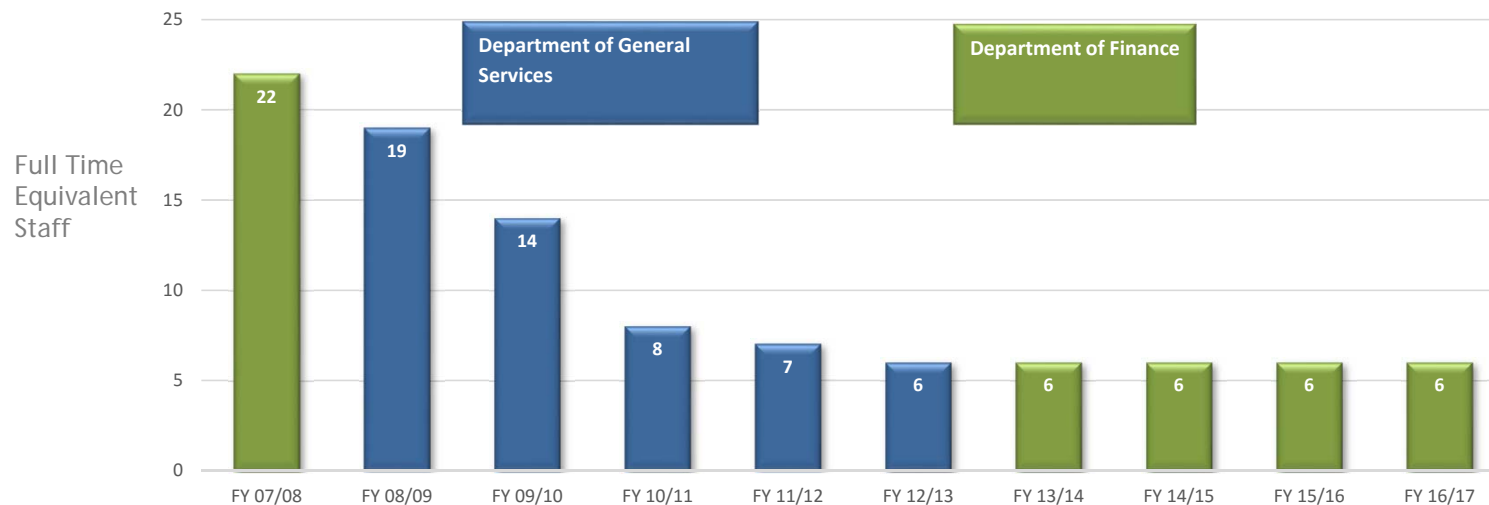
- To conduct trend analysis and to test the effectiveness of contracting controls and compliance, we developed a sample dataset of 180 contracts and supplements:
 - *109 Original Contracts*
 - *71 Contract Supplements*
- We also relied on additional individual contracts not included in the dataset to serve as specific examples of noncompliance or otherwise poorly executed agreements.

BACKGROUND

Under decentralized procurement, departments conduct their own solicitation and contracting using City Code, City policy, and Procurement Division guidance.

The Procurement Division is responsible for “establishing procurement standards, ensuring compliance with procurement policies and best practices, managing citywide contracts, and assisting departments with solicitations and contracts.”

In FY 2008-09, the Procurement Division was moved from the Department of Finance to the Department of General Services, who began reducing the procurement services provided Citywide. This reduction in services would continue through FY 2011-12.



AUTOMATED BIDS, CONTRACTS, DIGITAL SIGNATURES *(ABCDs)*



The building blocks of an efficient procurement process.

FINDING 1: PROCUREMENT GUIDANCE AND TRAINING WERE INSUFFICIENT TO ENSURE EMPLOYEES PROPERLY PROCURED SERVICES ON BEHALF OF THE CITY

The City could benefit from establishing procurement ethics and standards.

Procurement guidance is not in line with City Code and policy.

The City could benefit from identifying procurement stakeholders and clearly defining their responsibilities.

Many key employees did not receive training prior to engaging in procurement activities.

The City could benefit from clarifying the use and purpose of purchase orders.

FINDING 1 RECOMMENDATIONS

We developed 13 recommendations to address Finding 1, which include:

Establishing codified ethics, guidelines, and standards

Defining and publishing stakeholder roles and responsibilities

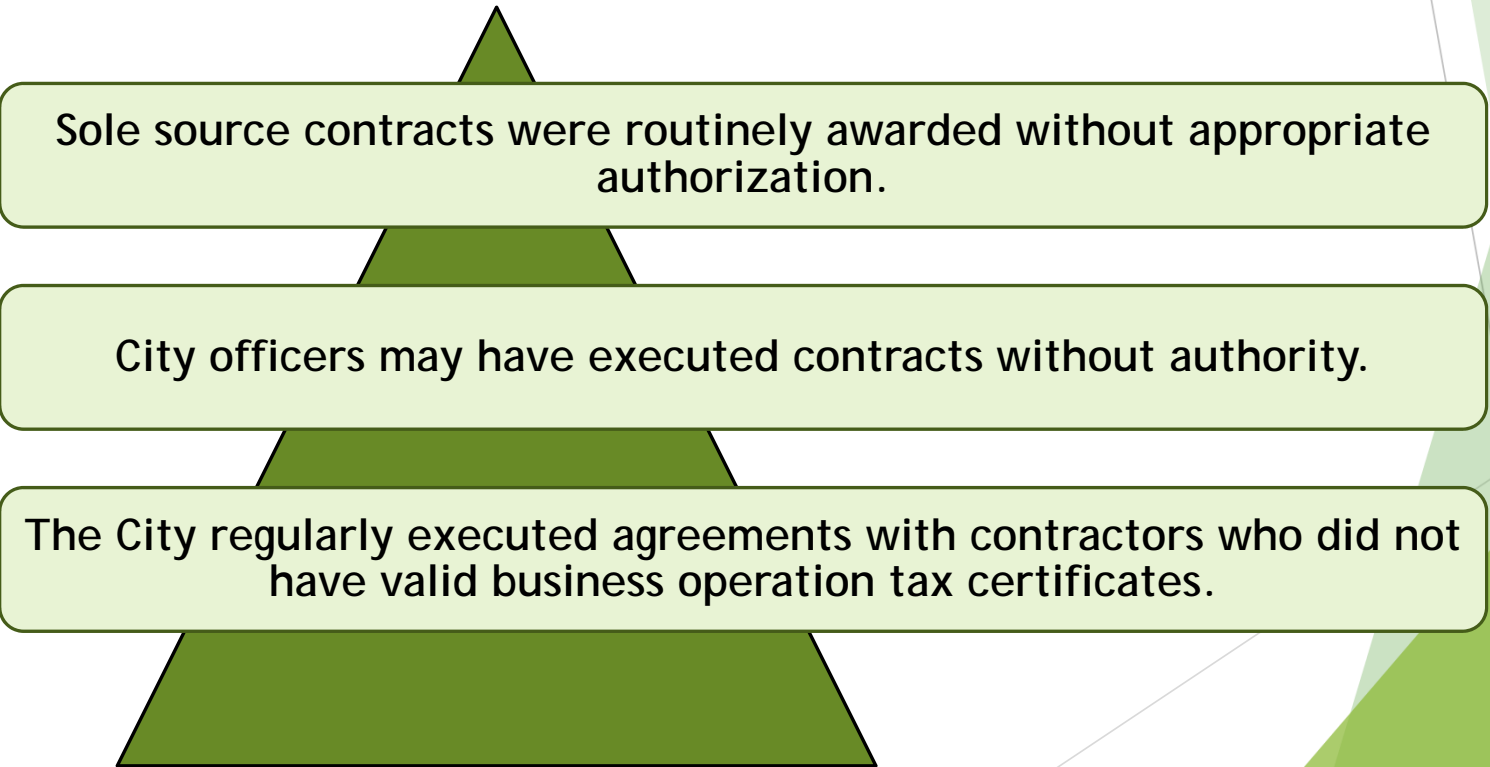
Revising procurement training for consistency and requiring employees with procurement responsibilities to complete training

Reviewing and clarifying the purpose of purchase orders

Reviewing and updating guidance and policies for intent and consistency

Establishing and publishing quality control and review procedures

FINDING 2: CITY DEPARTMENTS DID NOT ENSURE CONTRACTS WERE AWARDED AND EXECUTED IN ACCORDANCE WITH CITY CODE AND CITY POLICY



Sole source contracts were routinely awarded without appropriate authorization.

City officers may have executed contracts without authority.

The City regularly executed agreements with contractors who did not have valid business operation tax certificates.

FINDING 2 RECOMMENDATIONS

We developed 8 recommendations to address Finding 2, which include:

Developing controls to ensure all requests for sole-sourcing are approved prior to awarding such contracts

Considering a review of currently active contracts signed by City Officers prior to the updated Signature Authority Policy

Conducting a review of active City contractors' tax certificate statuses to recover overdue taxes and penalties

Developing controls to ensure contracts cannot be executed without a BOT Certificate, and to ensure certificates remain valid through the contract period

FINDING 3: CITY DEPARTMENTS FAILED TO ENSURE CONTRACTS WERE MANAGED IN ACCORDANCE WITH CITY CODE AND CITY POLICY

Contract periods were frequently extended without authorization and contract supplements were frequently executed after the contract period had ended.

Competitive procurement thresholds were routinely circumvented by supplementing contracts after execution.

Many contracts lacked clearly defined periods of service.

Many contracts were signed after the service period had already started.

FINDING 3 RECOMMENDATIONS

We developed 7 recommendations to address Finding 3, which include:

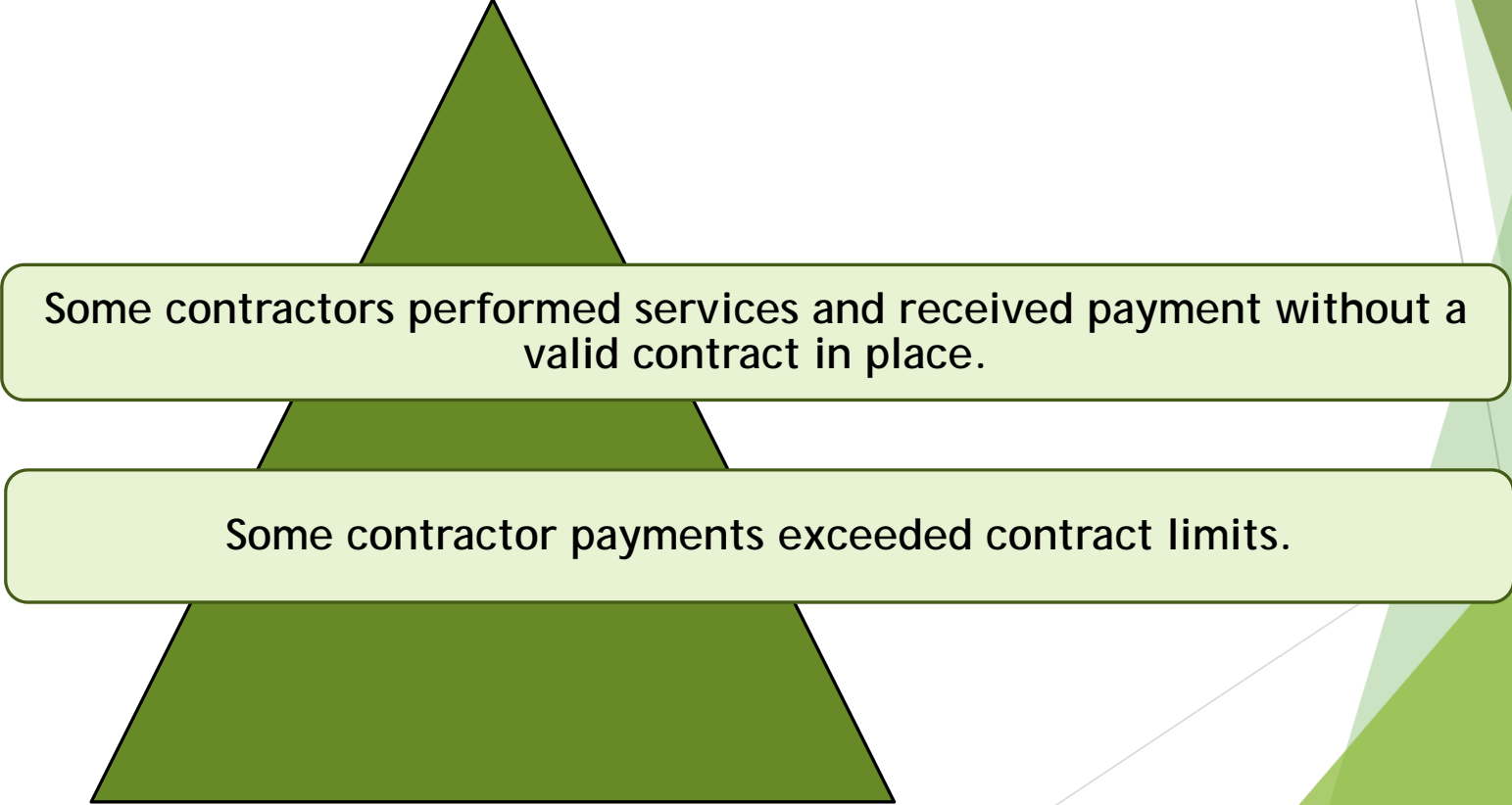
Developing controls to ensure supplements are only executed if they are authorized in the original contract and are only executed before the contract expires

Developing controls to ensure contracts are not supplemented beyond bidding thresholds without the appropriate selection and approval process

Developing controls to ensure contracts are fully executed prior to any service performance

Establishing and developing controls to clarify specific periods of performance and execution dates

FINDING 4: INTERNAL CONTROLS WERE INSUFFICIENT TO PREVENT INAPPROPRIATE PAYMENTS TO CONTRACTORS



Some contractors performed services and received payment without a valid contract in place.

Some contractor payments exceeded contract limits.

FINDING 4 RECOMMENDATIONS

We developed 4 recommendations to address Finding 4, which include:

Developing controls to ensure purchase orders are only authorized with a valid contract in place

Developing controls to ensure invoices are not paid without a contract in place

Developing controls to ensure purchase orders do not exceed contract limits

Developing controls to ensure employees do not authorize payments in excess of contract limits

The slide features abstract green geometric shapes on the left and right sides. On the left, there is a solid green trapezoidal shape. On the right, there is a complex arrangement of overlapping translucent green triangles and polygons in various shades of green, creating a layered effect. The text "Questions or Comments?" is centered in the white space between these two green areas.

Questions or Comments?