



MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Kathie G. Brooks, Interim City Manager
FROM: James J. Sutter, Internal Auditor

DATE: December 20, 2012
AUDIT: Procurement Division Operational Audit
PERIOD: October 1, 2008 through June 30, 2011

This report is the result of a regularly scheduled audit of selected operating processes and transactions performed by the City's Procurement Division between October 1, 2008 and June 30, 2011. Given the division's wide array of tasks and responsibilities, the primary focus of this audit is on the purchase requisition and purchase order processes. The audit did not include capital improvement projects, which are programmed to be audited separately.

INTRODUCTION

The City's Procurement Division is responsible for providing centralized procurement and technical assistance in the acquisition of goods and services including architectural and engineering, construction and other specialized professional services, in accordance with Federal Law, Florida Statutes, City Code, and sound business practice. Article VI of Chapter 2 of the City Code establishes the Procurement Division, and the position of Procurement Division Director, prescribes the manner in which the City shall control purchases, and prohibits the purchase of any material or supplies (except as provided by the Article) other than through the Procurement Division.

Although there are many possible variations, the City's purchasing cycle can be summarized as follows:

- Departments/divisions submit budget requests for the fiscal year.
- After a review process, the City Commission adopts the annual budget.
- Departments/divisions submit a purchase requisition for a needed product or service in accordance to adopted budget.
- The Procurement Division reviews the purchase requisition and verifies that all necessary approvals have been obtained. For example, department heads have the approval for purchase requisitions up to \$25,000; OBPI's Budget Division is to approve all purchase requisitions greater than \$1,000 and capital items; and the City Manager or his designee (Assistant City Managers or the Chief Financial Officer) have approval authority for all purchase requisitions greater than \$25,000.
- Procurement Division staff determines if the item is available through an existing City contract. If not available, then they identify the potential sources of supply.
- Procurement then determines the source selection method (informal quotes – used for purchases up to \$25,000 and at least three quotes are to be requested; formal bids – used for purchases exceeding \$25,000 and competitive sealed bids are to be requested, piggybacking – the post-award process whereby the City has the ability to use the same terms as those listed in previously adopted contracts by such independent organizations as U.S. Communities Government Purchasing Alliance, Federal GSA, State of Florida, Miami-Dade County and the School Board of Miami-Dade County; etc.).

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- When issuing formal bids, Procurement finalizes, assembles and issues solicitation documents.
 - All offers received are then evaluated so that a vendor is recommended in a Commission Memorandum/Resolution.
 - The City Manager may approve or disapprove of the received recommendation.
 - Procurement staff then provides the recommendation and notice to file protest to all individuals who submitted bids/proposals.
 - The City Commission decides whether to approve or disapprove of the received recommendation.
- Once approved, the purchase order may be created so that the desired materials or services may be purchased from the selected firm.

Based on records provided the Procurement Division, the following number of transactions (separated by fiscal year) were processed during the October 1, 2008 through June 30, 2011 audit period:

	10/01/08 – 09/30/09	10/01/09 – 09/30/10	10/01/10 – 06/30/11 (9 months)	Total
Purchase Requisitions	2,034	2,959	2,661	7,654
Purchase Orders	1,737	2,409	2,105	6,251
Requests for Proposals	18	12	14	46
Requests for Qualifications	5	5	8	18
Invitations to Bid	17	34	24	75

From these transactions above, Internal Audit randomly selected a sample of fifty purchase requisitions (internal documents used by City departments/divisions to notify the Procurement Division of items they need to order, their quantity and the timing of their order) and purchase orders (commercial documents used to request an outside firm to supply something in return for payment and providing specifications and quantities) for testing. The sample size was determined by the designated audit scope and the availability of audit hours. Our audit sample was further stratified to include twenty from the 2008/09 fiscal year, twenty from 2009/10 and ten from the 2010/11 fiscal year.

Finally, the Procurement Division is currently in the lengthy process of entering vendors' information, requests for proposals, contracts, etc. into the Eden System's Contract Management Module. Possible realized benefits include centralizing pertinent contract information, measuring vendor performance, maintaining required documentation, etc. Applicable vendors are those whose current contracts with the City exceed \$25,000 as well as any other lesser valued ones in which performance wants to be tracked.

OVERALL OPINION

The Procurement Division processes a large volume of transactions annually so that City departments/divisions can purchase a variety of needed goods and services. In doing so, the Procurement Division was found to be functioning essentially in compliance with Florida Statutes, the City Code and their administrative policies and procedures. However, several opportunities for improvements were noted and are enumerated below:

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- Although City departments/divisions are cognizant that purchase orders should not be split to stay below designated dollar thresholds, no clear definition was found as to what constitutes splitting. As a result, there is a lack of consistency and uniformity noted in the creation of purchase orders among City departments/divisions.
- Testing found that City departments/divisions ordered materials and services prior to the Procurement Division's creation of purchase orders for 12.00% of the randomly sampled purchase orders.
- The Procurement Division is typically not requesting, reviewing or maintaining documentation to verify that City departments/divisions are requesting or obtaining quotes for purchases less than \$25,000 to help ensure that optimum competitively bid prices are received.
- The fifty randomly sampled purchase orders created during the audit period took an overall average total of 16 calendar days to complete which is a significant improvement over the 27 calendar days similarly calculated for FY 2002/03 during a previous internal audit.
- The Eden System's Contract Management Module is not being fully utilized as the information had not been entered for thirteen of the tested twenty-eight relevant vendors.
- Incomplete vendor information was noted in the Eden System's Accounts Payable module as physical mailing addresses, telephone numbers and/or federal identification numbers were occasionally missing.
- Divisional policies and procedures are currently being updated to better reflect current operations but have not been completed to date.
- The Procurement Division did not maintain the City Code required Purchasing Manual, Vendor Catalog File and Listing of Debarred Contractors during the audit period.

Finally, Internal Audit reviewed the supporting documentation for the departmental performance indicator entitled "*Average # of calendar days from requisition to purchase order*" and found that the reported quarterly figures accuracy could not be confirmed due to limitations in the generated reports.

PURPOSE

The purpose of this audit was to determine whether tested Procurement Division procedures and operations were in compliance with the City Code and division administrative policy; whether tested transactions were properly authorized and efficiently and effectively executed; and whether tested bid and other related files are adequately documented.

OBJECTIVES

1. Confirm that comprehensive updated policies and procedures exist, are known to staff and are properly followed.
2. Confirm that the internal control process implemented including a proper segregation of duties is adequate.
3. Confirm that maintained documentation is organized, complete and sufficient.

4. Confirm that competitive bids are requested, obtained, recorded and tabulated for tested purchase orders. If the lowest bidder was not approved, then were the reasons properly documented and sufficient.
5. Confirm that tested purchase orders are timely created and adhere to the relevant City Code provisions.
6. Confirm through inquiries and testing whether unauthorized purchases occur. If so, what disciplinary and enforcement actions were taken against the individual(s).
7. Confirm that tested vendor accounts are complete, are not duplicated and that entry is adequately controlled.
8. Confirm that any reported vendor nonperformance cases or debarred contractors are accurately monitored.
9. Confirm that tested data is accurately reported on the City's performance measurement software.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding - *The Lack of a Definition for Splitting Results in Inconsistencies in the Creation of Purchase Orders and Provides Leeway for City Departments/Divisions to Potentially Avoid Following Proper Purchasing Approval Procedures*

The operating policies and procedures furnished by the Procurement Division contain the following sentence "*Under no circumstances should purchase requisitions or the use of small purchase orders be split to circumvent proper purchasing approval procedures listed herein.*" However, there is no further language defining splitting and as to how purchase orders should be created thereby potentially allowing City departments/divisions to avoid exceeding the \$25,000 threshold which requires that more stringent rules be followed.

Inquiries with Procurement Division staff found that some City departments/divisions created several purchase orders rather than just one because their intended purchases involved several general ledger accounts, several locations, etc. all other things being equal. For example, our testing identified three sequentially numbered purchase orders which cumulatively totaled \$28,500 but each individually was below \$25,000 and all monies were paid from the same general ledger account. The only difference noted was that one was for a City cost allocation study, while the second involved resort tax and the third was for South Pointe. Conversely, Procurement Division staff cited other examples whereby City departments/divisions would group these same types of items together under one purchase order.

Under current practices, these types of purchase orders would not be questioned as there is leeway given which results in a corresponding lack of uniformity and consistency. Negatively, it could also potentially allow City departments/divisions to circumvent proper purchasing approval procedures.

Recommendations:

The Procurement Division should define splitting and the desired manner as to which purchase orders should be created. For example, should they be separated by general ledger accounts, by locations, by fiscal year, etc. or should they be combined. Once determined, the rules should be unilaterally enforced so there is consistency and uniformity among City departments/divisions in the creation of purchase orders.

Management Response:

The Procurement Division did prepare three separate agreements in the amounts of \$18,500, \$8,500 and \$3,500 for Consulting Services – Cost Allocation studies which in total did exceed the established threshold. These three agreements were presented to the City Manager and were signed on the same day, October 9th, 2009.

Although it is difficult to define splitting as it is frequently determined on a case by case basis during the Procurement Division's review process, various examples of impermissible splitting will be prepared and distributed to the City departments/divisions to be used as examples. In addition, meetings will be held with divisional staff to further discuss the issue so that it can be uniformly enforced by all personnel.

2. Finding – *Vendors' Invoice Dates were Found to Precede the Procurement Division's Creation Date for Three of the Applicable Randomly Sampled Twenty-Five Purchase Orders or 12.00%*

Section 2-393(a) and (b) of the City Code states *"Except as provided in this article, it shall be unlawful for any city officer or other person to order the purchase of any materials or supplies or make any contract for municipal materials or supplies within the purview of this article other than through the procurement director, and any purchase, order or contract made contrary to the provisions of this article shall not be approved and the city shall not be bound thereby. There shall be no exceptions by any using agency to the above provisions except as may be specifically authorized by the city manager in writing, stating the reasons for such exceptions."*

Testing was conducted to determine whether City departments/divisions were in compliance for the fifty randomly sampled purchase orders by checking if the materials and services were ordered prior to the creation of the purchase orders absent a contract. In doing so, it was determined with the Procurement Division that the following twenty-five were excluded from analysis for the listed reasons:

- fourteen purchase order involved services provided in accordance with properly approved City contracts
- seven purchase orders did not have any corresponding payments remitted by the City department/division
- two purchase orders numbered 16041 and 16463 were excluded from analysis because the City's CIP Department indicated that the Gordian System (PROGEN-JOC Program) prompts an invoice every time a job request is entered, with the same date as the job entered. After the project and the corresponding Gordian Group fees are generated by PROGEN, CIP cannot enter the pertinent requisitions for the project and Gordian Group fees in the Eden System. As a result, the invoices

automatically created by PROGEN will always be dated earlier than the purchase order

- purchase order numbered 11405 was caused by an emergency and urgent request made by the City Manager
- purchase order numbered 11356 was entered into the Eden System with a creation date of 08/31/09 when the supporting documentation shows that it actually should have been 08/31/08

Of the remaining twenty-five sampled purchase orders, it was determined that three or 12.00% of the first vendors' invoices preceded the creation date. All three involved different City departments (Parks & Recreation, CIP, and Public Works) with the relevant number of days ranging from a low of 10 for purchase order number 11837 (CIP) to a high of 97 days for purchase order number 14040 (Public Works). Nothing in writing was furnished for any of these transactions showing that the City Manager specifically authorized them or that there was a valid signed contract in effect first, yet all were approved and the requested payments made.

Recommendations:

City departments/divisions should not purchase, order or contract with vendors for desired materials and services until the purchase order is created unless specifically authorized by the City Manager in writing. The Procurement Division Director should send notification reminding all City departments/divisions of the need to comply or be subject to disciplinary actions. If deviant behavior continues to exist, then the corresponding disciplinary actions should be enforced.

Management Response:

The Procurement Division will schedule annual training to enforce the Procurement Policy and Procedures to help prevent this and other not permitted actions. Department heads and all other personnel engaged in the purchasing of items or services will be required to attend. During the annual session, Procurement will make clear what constitutes an "unauthorized purchase" as defined by Section 2-393 (a) of the City Code:

Purchases are to be made only by procurement director. It shall be unlawful for any city officers or employee to order the purchase of any materials, supplies, equipment and certain contractual services, or make any contract within the purview of this article other than through the procurement director, and any purchase, order or contract made contrary to the provisions of this article shall not be approved and the city shall not be bound thereby.

Additionally, the Procurement Division Policy and Procedures states that "All unauthorized purchases (ordering and/or receiving of materials or services without the required prior City authorizations) is a violation of Chapter 2 of the City Code. All such violations will be reported by the Procurement Division in coordination with the Finance Department, to the Office of the City Manager with a copy to the Internal Auditor. The City Manager may request for Internal Audit to conduct a review of the unauthorized purchase."

3. Finding – *The Procurement Division is not Confirming or Maintaining Documentation to Verify that the City Departments/Divisions are Requesting and/or Receiving Quotes and/or Bids for Purchases Less than \$25,000*

Although City departments/divisions are empowered to request or obtain quotes prior to submitting purchase requisitions, the Procurement Division is ultimately tasked with confirming that all requirements are satisfied before creating the corresponding purchase order. Yet, they typically did not request, review or maintain documentation confirming that the required quotes were requested or obtained for purchases totaling less than \$25,000 from the same vendor. As a result, Internal Audit could not verify that the required due diligence was performed and that the City obtained the optimum competitively bid purchase prices for the desired products and/or services.

Recommendations:

At a minimum, Procurement Division staff should obtain a tabulation sheet from the applicable City department/division detailing what quotes/bids were requested/received from outside vendors. This document should be maintained to support each purchase order's creation so that it can be confirmed that the optimum competitively bid price was received. Finally, the Procurement Division Director should create a checklist listing the required documents to be provided and reviewed before a purchase order is created. Staff should complete this checklist and attest to the accuracy of the contained information to help improve accountability.

Management Response:

Currently, each person is filing quotes received by the Procurement Division or requested by any other department/division. The City's Eden System was very recently upgraded to allow departments/divisions the ability to attach documents such as the quotes received along with the requisition and to add any pertinent comments.

The Reverse Auction and informal quote features built in the new E-Procurement System, The Public Group, will allow Procurement to review, track and record all quotes initiated by the departments/divisions and/or Procurement. All quotes will be initiated in the system and all requisitions will have to make reference the quote number or Reverse Auction date/number in the future.

4. Finding – *Tested Purchase Orders were Created on Average Sixteen Days After the Process was Initiated*

A total of fifty purchase orders were randomly sampled during the audit period with twenty being created during the 2008/09 fiscal year, twenty more originating from the 2009/10 fiscal year and the last ten from the current fiscal year. The Eden System's automated approval queue was reviewed to calculate the number of days that it took for each person to approve each purchase order to help determine if and where the process was being bottlenecked. The following table summarizes the computed average number of days (rounded to the nearest whole number) that it took each listed position to approve the tested purchase orders:

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	FY 2008/09	FY 2009/10	10/10 – 04/11	Position Average
Originating Person	5	9	1	3
Originating Department Head	1	2	2	2
OBPI/Budget	4	3	4	3
City Manager's Office	2	2	1	2
Procurement Employee – Create Purchase Order in Eden	12	5	7	8
Procurement Director	2	1	1	1
Procurement Employee – Finalize Purchase Order	2	2	3	2
Total Average Per Fiscal Year *	23	18	17	20

* Different positions are required to approve different purchase orders based on the amount and type as summarized earlier in the audit report's introduction section. As a result, the above table's individual components will not necessarily equal the total average per fiscal year.

It was initially determined that it took an overall average of twenty days from the date that the tested purchase orders first entered the queue until the date that they were created. Most of the queue time was spent inside the Procurement Division with an average of eleven calendar days consisting of eight calendar days by the corresponding employee assigned to that department/division, one day by the Procurement Division Director and two days to finalize the purchase order's creation.

Similar testing performed in previously completed internal audits covering the 2002/03 (various City departments/divisions were tested) fiscal year found that it took the Procurement Division an average of twenty-seven to finalize tested purchase orders. Consequently, the above table's computed total average of twenty days during the audit period represents a substantial improvement. Each analysis could not properly evaluate and measure any external factors (ex. the purchase order was incomplete or prepared incorrectly, the supporting invoices were not attached, etc.) which could lengthen the process.

The Procurement Division was notified of these results and was given the opportunity to review the tested forty-three purchase order transactions. In doing so, they found that that four of these purchase orders numbered 10711, 10760, 10800 and 11151 occurring prior to February 2009 disappeared for an extended period due to an Eden System glitch resulting in processing times in excess of forty days thereby skewing the overall computed average. The City's Information Technology Division was subsequently contacted whereby they said that that this software defect was patched in version 5.2.0 with Tracker # 32862, and the City upgraded to Eden version 5.2.2 in November of 2009. Upon removing these four purchase orders from analysis, the corresponding average was reduced from 20 to 16 calendar days.

Recommendations:

Since purchase orders are typically created due to departments/divisions immediate needs, the calculated time savings realized above over prior results is important. Procurement Division staff should continue trying to expedite the purchase order creation process so that additional improvements can be achieved.

Management Response:

It must be noted that the Procurement Division is tasked with the responsibility of doing the due diligence, reviewing the request and identifying the purchase authority for each acquisition. It is only normal that the requisition will take the longest in this process since some require a formal process such as bid, RFP, or piggyback process in order to be approved. In addition, within the Procurement Division and depending on the expenditure amount, the requisition may be reviewed by three to four individuals.

5. Finding – *The Eden System's Contract Management Module is not being Fully Utilized as only Thirteen Vendors Relevant Information of the Twenty-Eight Sampled or 46.43% were Entered*

Of the fifty randomly sampled purchase requisitions and purchase orders, it was determined with Procurement Division staff that twenty-eight vendors pertinent information warranted entry into the Eden System's Contract Management Module. Yet, testing found that entry had not yet been made for thirteen or 46.43% of these tested into the Contract Management Module by the currently designated Procurement Division employee.

Furthermore, it was discovered that the Contract Management Module's usage is currently being limited primarily to alerting users when the contract/agreement is expiring, tracking vendor performance and listing the actual contacts/agreements. However, it could also be used to track insurance expiration dates and the existence of valid performance bonds which are currently not being done.

Recommendations:

Although a formidable and time consuming task given the lengthy entry process and the large number of pertinent vendors, the Procurement Division staff should continue to enter the applicable vendors' information. Furthermore, the Procurement Division Director should consider reassigning these duties among all staff members or to the corresponding departments/divisions personnel to expedite this process.

Management Response:

The Contract Management Module should contain all contracts resulting from formal bidding processes from the 2006 fiscal year to the present. The Procurement Division is also looking at entering all purchase authorities created via piggyback memo.

The Procurement Division started to build the Contract Management Module in early 2010. Currently, there are 421 contracts in the system, which have all been entered by one designated Procurement Division employee with each entry taking approximately twenty minutes.

In addition, Procurement provided four Citywide training sessions whereby participants learned how to link the contracts to the requisitions in order to track expenditures on each applicable vendor and how to enter performance comments and attach Contractor's Performance Evaluations. Since last year, the Procurement Division has been working with the Information Technology Division in creating a report allowing Procurement to track if the departments are entering performance comments and uploading the Contractor's Performance Evaluations.

6. Finding – *Incomplete Vendor Information is being Entered into the Eden System's Accounts Payable Module*

The fifty randomly sampled purchase requisitions and purchase orders were created for forty-seven different vendors as there were three duplications. Internal Audit subsequently reviewed the completeness of these forty-seven vendors contact information entered into the Eden System's Accounts Payable Module. The creation of vendor accounts is currently restricted to three Finance Department employees and one Procurement Division employee. The following informational items were noted in our analysis that could allow for the creation of fictitious businesses if not corrected in the future:

- Sixteen of the forty-seven vendors sampled or 34.04% did not contain a physical mailing address. Of these, fifteen listed a P.O. Box and one did not contain an address as it merely stated "Fleet". Internal Audit's concern with P.O. Boxes is that they can be opened by anyone as they do not contain the vendor's physical location which can then be more easily verified by independent sources.
- Eight of the forty-seven vendors sampled or 17.02% did not include a phone number at which the company could be reached. This list includes two of the aforementioned vendors whose address consisted of only a P.O. Box and the one that did not have an address.
- Twenty-seven of the forty-seven vendors sampled or 57.45% did not include an email address to facilitate contact.
- Seven of the forty-seven vendors sampled or 14.89% did not include their federal tax identification number or EIN, which is assigned by the Internal Revenue Service to business entities operating in the United States for the purposes of identification.

Despite this missing information raising concerns as to the vendors' legitimacy, Internal Audit confirmed their existence through internet research and phone calls with no exceptions noted. Although not all this information is required for the creation of vendors, there are fields available in the Eden System and it is beneficial to have more information present.

Recommendation(s):

Designated Finance and Procurement employees should ensure that such information as the vendor's physical address, phone number and federal tax identification number are fully completed before creating the vendor in the Eden System. Furthermore, this information should be updated when and if the vendor's information changes. Current centralized contact information is beneficial in the event that City personnel need to speak with vendor representatives and it helps facilitate independent confirmation as to the vendors' existence.

Management Response:

Currently, two Finance Department employees and one Procurement Division employee have the ability to add vendors in the Eden System and there is no known way to determine who actually created the vendor and when. Either way, the corresponding Procurement Division employee went through the sampled vendors and updated much of the missing information, especially concerning EINs. Going forward, a more concerted effort will be made to enter as much information as possible on the vendor,

however; more vendors are using P.O. Boxes as their mailing address and there is no known way to enter both addresses in the Eden System.

7. Finding – *Procurement Division Operating Policies and Procedures Need Updating*
The Procurement Division's provided operating policies and procedures are currently being updated and they expect to be finished shortly so that they could be submitted for review and approval.

Recommendations:

The division's operating policies and procedures should be completed since they serve both as a benchmark to measure individuals' performance and as an instruction manual in the event employees' change. Once completed, they should be distributed to all applicable personnel so that they can be read, understood and followed.

Management Response:

The operating policies and procedures have since been completed and are awaiting final approval before being implemented.

8. Finding – *The City Code Required Purchasing Manual, Vendor Catalog File and Listing of Debarred Contractors Were Not Maintained During the Audit Period*
City Code Section 2-339(5) states that the Procurement Director shall "Prescribe and maintain a manual of purchasing procedures and provide same for all using agencies." Inquiries found that the Procurement Division does not currently have an up-to-date purchasing manual serving as a basic guide to the City's purchasing operations and reflecting the current provisions of the Purchasing Ordinance. Consequently, Procurement Division personnel may receive inquiries from other departments/divisions on various items that hinder their ability to perform other more important tasks.

In addition, City Code Section 2-339(8) requires the preparation, adoption and maintenance of a vendor's catalog file according to materials and containing descriptions of vendor's commodities, prices and discounts. This document was requested from divisional staff several times during the audit but was not received.

Finally, City Code Section 2-399 requires the compilation and maintenance of a current, consolidated list of all contractors debarred by City departments which is a public record available for inspection. Inquiries found that this listing has not been maintained by the Procurement Division during the audit period.

Recommendations:

The Procurement Division should create and maintain a purchasing manual, vendor's catalog file and a listing of debarred contractors per the City Code. If any of these items are deemed unnecessary, then efforts should be made to have the City Commission consider revising the City Code accordingly.

Management Response:

The maintained purchasing manual has been distributed to all user City departments/divisions. The vendor catalog is no longer applicable as it was required by the City Code in 1964 when electronic methods were not available. The Procurement Division does the vendor outreach in the internet and by posting business opportunities

in several bid notification systems. Finally, there are not currently any debarred contractors so there is no need for a listing.

9. Finding – *Review of a Selected Departmental Performance Indicator “Entitled Average # of Calendar Days from Requisition to Purchase Order”*

The Procurement Division’s performance measurement scorecard was reviewed to determine the accuracy of the departmental performance indicator entitled “Average # of calendar days from requisition to purchase order”. A review of the performance measure’s nonfinancial information entered into the City’s performance measurement software found it to be complete except that variance reports were typically not completed when the actual figures differed from the targets.

The following table lists the Citywide averages reported for the eleven completed quarters during the audit period in the City’s performance measurement software:

Quarter Reported	Citywide Average
Q4 FY08	11
Q1 FY09	22
Q2 FY09	18
Q3 FY09	19
Q4 FY09	18
Q1 FY10	23
Q2 FY10	12
Q3 FY10	14
Q4 FY10	12
Q1 FY11	20
Q2 FY11	20

The figures in the table above are calculated from two reports called “Requisition to PO Avg Days Per Queue” and “Requisition to PO Average Per Queue Level”. These two reports are time sensitive and have to be generated promptly following the end of the month by the Procurement Division or they may be either incomplete or capture unwanted data because they are based on real time as they default to the current date that the report is generated.

Therefore, if the designated preparer for whatever reason runs these reports prior to the end of the month then they will not capture any purchase orders created afterwards during that month. Similarly, if the report is run after the month’s conclusion then it may include some purchase orders that were created in the subsequent month that may also be captured again when the next month’s reports are generated. Testing performed on four quarters’ reports (Q2 FY09, Q2 FY10, Q3 FY10 and Q1 FY11) found that three were completed very near the end of the period but the Q3 FY10 report was run on 08/02/10 or 33 days after the actual quarter’s 06/30/10 end date.

Furthermore, the two reports have to be saved electronically and/or be printed because they cannot be re-created for a period once the time has passed. For example, the reports covering Q1 FY10 could not be located during the audit so the corresponding reported figures could not be verified.

Another shortcoming of these two reports is that they do not list the individual purchase requisitions and purchase order numbers so that their accuracy can be confirmed. Instead, the reports only portray such summary departmental information as the total number of purchase orders created that were reviewed by each level and the average number of days taken to approve the purchase order by each level to facilitate identifying any potential bottlenecks (similar to finding number 3). Levels represent the different City employees who have to approve the transaction based on the amount and type of purchase order (ex. level 1 = department head, level 2 = budget, etc.).

Since the two reports do not compute the overall Citywide average, a designated Procurement Division employee manually enters each departments' data into an Excel spreadsheet so that it can be calculated and reported in the City's performance measurement software. All provided manually prepared Excel spreadsheets computed Citywide quarterly averages were found to equal those amounts reported in the City's performance measurement software. However, review of four months' Excel spreadsheets found that sometimes not all departments' average number of days are recorded, occasionally they are listed under the incorrect department, etc. thereby potentially resulting in incorrect Citywide and departmental averages. For example, Q3 FY10 reported a Citywide average of 14 days when it was determined to be actually only 13 days due to these types of mistakes.

In summary, Internal Audit concludes that the figures reported during the audit period for the departmental performance measure entitled "*Average # of calendar days from requisition to purchase order*" fall into the "factors prevented certification" category based on the criteria defined in Exhibit 1 located at the end of this audit report.

Recommendations:

When necessary, the Procurement Division should complete variance reports in the City's performance measurement software to explain the reasons for the difference between the actual and targeted figures. Meanwhile, the City's Information Technology Division should be contacted to determine if going forward they can add the corresponding purchase requisition and purchase order numbers to the two aforementioned reports. It would also be helpful if the preparer could enter an ending date for which calculations are based and to have them compute the Citywide average so that the manually prepared Excel spreadsheets could be eliminated.

Finally, Procurement Division staff should review the remaining six quarters supporting documentation (no records are available for the Q1 FY10) to determine the accuracy of the reported Citywide average figures during the audit period. Any found inaccuracies such as with the tested Q3 FY10 should be corrected in the City's performance measurement software.

Management Response:

The Information Technology Division reports have recently been revised so that the user can enter starting and ending dates rather than relying on an employee to generate these reports at the end of the month. As a result, the performance measurement system reported data should be more accurate and will be consistently calculated going forward.

However, there may still be instances where requisitions do not hit all queue levels because they are rejected or returned which cannot be captured in these reports. There are other instances when a requisition is entered to request an increase, the original requisition is always rejected and the increase is performed in the original purchase order. In these instances, the report reflects said requisitions as going into a cloud without being able to report the actual location of those requisitions. As confirmed with Information Technology, these are considered mathematical discrepancies in the reporting tools which make them not fully accurate. Finally, Eden System glitches as described in finding number four above will also affect the accuracy of the reported figures.

EXIT CONFERENCE

Several meetings were held to discuss the audit report and to solicit the management responses recorded above. Attendees included various combinations of the following City employees: Chief Financial Officer Patricia Walker, Assistant Finance Director Georgina Echert, Previous Procurement Division Director Gus Lopez, Assistant Procurement Division Director Maria Estevez, Internal Auditor James Sutter and Senior Auditor Mark Coolidge. All parties were in agreement as to the contents of this report. Management responses were solicited and have been incorporated into the audit report.

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(Audit performed by Mark Coolidge, Senior Auditor)

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cc: Patricia Walker, Chief Financial Officer
Georgina Echert, Assistant Finance Director
Raul Aguila, Chief Deputy City Attorney
Alexis Denis, Procurement Division Director
Maria Estevez, Assistant Procurement Division Director
Gladys Gonzalez, Information Technology Division Director

EXHIBIT: 1 – Assessment Categories for Performance Measures Verification

Assessment Category	Criteria
Certified	If reported performance is 100% accurate and if it appears that controls are in place to ensure accuracy for collecting and reporting performance data. Measurement data is supported by source documents.
Certified with Qualifications	This category is assigned under either one of two conditions: 1. <i>Reported performance is within +/- 3%, but the controls over data collection and reporting are not adequate to ensure continued accuracy.</i> 2. <i>The department's calculation of actual performance deviates from the measure definition, but was still within an acceptable range.</i>
Factors Prevented Certification	Documentation is unavailable or incomplete and controls are not adequate to ensure accuracy. This category is also assigned when there is a deviation from the measure definition and the reviewer cannot determine the correct measure result.
Inaccurate	Actual performance is not within 3% of reported performance, or there is a greater than 5% error in the sample of documents tested.

EXHIBIT: 2 - Additional References for Performance Management Software's Description of Measure

- 1) **Measure Name:** Should list the name of the measure for which data is being collected and reported.
- 2) **Measure Type:** Should recognize whether the measure is an "Input", "Output", or "Outcome" measure. One must consider whether results are measured through input (Ex: Customer surveys), output (Ex: Number of contracts completed without change orders), or outcome (Ex: % of projects substantially completed or in beneficial use within 120 days).
- 3) **Measure Description:** Should describe the measure. Some measures are self explanatory and some may not; however, a description should always be included (Ex: The measure considers the % of change in the value of the change orders for a specific category divided by the original project cost).
- 4) **Measure Frequency:** Describes how often performance data is reported (Ex: Quarterly).
- 5) **Data Sources:** Should list sources used to collect performance data (Ex: System Software Names, Report Names, Schedules, etc.)
- 6) **Calculation Methodology:** Should explain how data reported was calculated (Ex: change orders for that quarter divided by the original total projects costs, projects substantially completed or in beneficial use within 120 days of the contract milestone date divided by the total number of projects completed during the same quarter).