

## **Managerial Summary**

### **A. Objectives, Scope and Methodology**

We have completed our review of the Small Purchase Policy (>\$5,000 and <\$100,000) for the period January 1, 2019 to June 30, 2019. Our review was conducted for the purpose of determining whether the City was complying with Small Purchase Policy, management oversight, and contract management.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Small Purchase Policy was the policy for procurement for unsealed proposals for goods and services valued at \$5,000 or more but less than \$100,000. For the period January 1, 2019 through June 30, 2019, the City spent \$142,782,682 in payment to vendors. Purchase orders (PO) totaled \$94,858,792 and non-PO purchases totaled \$47,923,889. PO payments subject to the Small Purchase Policy totaled \$10,302,561 paid to 481 vendors, and \$5,965,876 non-Po voucher payments to 299 vendors.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures and operations documents and reports, both internal and external. We also reviewed applicable State laws, regulations and City Ordinances. We discussed these audit areas and conducted interviews with the Procurement Administrator, other staff, and various employees. We also analyzed PeopleSoft vendor expense payments.

### **Major Observations and Conclusions**

Based on our review, we determined that the City was generally compliant with the Small Purchases Policy. However, we identified concerns with the implementation and oversight.

This report, in draft, was provided to City officials for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. The Procurement Administrator and staff were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

## **B. Performance Information**

On December 21, 2018, the City issued an Administrative Regulation creating a Small Purchase Policy. According to the City Attorney's Office, the City had not formally updated its small purchase policy since 1985. Audit Services noted this situation in a 2010 audit:

**“Finding - The City did not have centralized contract administration policies and procedures. The absence of centralized contract administration policies and procedures adversely impacted monitoring and enforcement of contractual requirements.**

**Recommendation - The City should develop an Administrative Regulation as quickly as possible that addresses policies and procedures for contract administration.**

**Response - Purchasing will develop an Administrative Regulation describing the policies and procedures for contract administration.”**

### **1. Small Purchase Policy and City Ordinance**

The *Virginia Public Procurement Act (VPPA)* permits a public body to establish small purchase procedures, if adopted in writing, not requiring the use of competitive sealed bidding or competitive negotiation for single or term contracts if the aggregate or sum of all phases is not expected to exceed \$100,000; however, such small purchase procedures shall provide for competition wherever practicable...

On November 13, 2018 City Council amended Section 54-61 to adjust the City's threshold to \$100,000 (it had been \$50,000) and added the following;

“The specific terms and requirements of this chapter shall not be applicable to the following contracts, provided, however, that the procurement administrator, or designee, under the direction of the city manager or designee shall promulgate policies and procedures for contracts of this size which shall provide for competition wherever practicable: ““Such policies and procedures shall be approved as to form by the city attorney or designee prior to implementation.”

To implement this, Administrative Regulation 4.13, *Small Purchase Policy* was authorized by the City Manager on December 21, 2018. The City's *Purchasing Policies and Procedures Manual* was issued on April 29, 2019. Both documents included the following:

“Departments shall estimate the total cost, including all possible renewal periods if a term contract, to determine if the procurement will exceed \$100,000. If the procurement is expected to exceed \$100,000 over the entire term of the contract, including all possible change orders and renewal periods...”

It should also be noted that the City received a Fraud Hotline complaint in November 2018 related to a small purchase as defined by the VPPA. The City Attorney’s Office participated in the investigation and determined that the City’s existing small purchase policy had not been updated recently enough to be in effect for this purchase. Therefore, the City moved quickly to create the new administrative regulation.

## **2. Citywide Organization**

Purchasing’s primary role was coordinating with the departments to procure services and goods at the best competitive rate. Individual contracts typically have “not to exceed” amounts for the contract life. Also, contracts originated by a department normally could be used by any other department.

The PeopleSoft financial system was the computer system used to process payments to vendors. PeopleSoft had the capability to monitor contracts, but the modules had not yet been implemented, leaving the process to be accomplished “at will”. Additionally, Finance had not yet created a specific field for contract numbers.

## **C. Operational Issues**

Based on our review, we determined Purchasing had accomplished its overall mission of ensuring that goods and services were procured in compliance with applicable laws, policies, and ordinances. However, we did identify several areas of concern that needed to be addressed. Those areas included the implementation of the City’s Small Purchase Policy, and the role of ensuring citywide compliance with contracts.

### **1. Implementation**

**Finding** – The City implemented its Small Purchase Policy without widespread training or preparation.

**Recommendation** – The City should explore opportunities to ensure staff receives adequate training on the new Small procurement policy

**Response** – **Purchasing agrees that the City should explore opportunities to ensure staff and end-users receive adequate training, not only on the Small Procurement policy, but on all aspects of the City’s purchasing policies and procedures. (Full response available in report.)**

## **2. Cost Analysis**

**Finding** – Purchasing had not implemented a plan to monitor contract total cost on a citywide basis.

**Recommendation** – Purchasing should develop a plan to monitor contract total cost on a citywide basis.

**Response** – Purchasing agrees with this recommendation. Purchasing will coordinate with Finance and present to the Enterprise Financial Systems (EFS) Team a task for adding the issue of including a field for contract numbers in the PeopleSoft account strings for expenses. This issue is also being addressed with the recent assessment of the PeopleSoft Supplier Contract Management procurement module which the City currently owns but not in use. This module is designed to automatically track spend data, contract expiration notifications, show when funds are expensed and remaining balances, plus offers additional benefits. The assessment determined that implementation of this module would be feasible and advantageous for the City. Budget for implementation of this module was included in Fiscal Year 2021 budget request. (Full response available in report.)