

## **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.

## **Methodology**

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, operations, documents, ordinances, and reports. We reviewed citywide spending through payments made through PeopleSoft financial system. This review included interviews with the Procurement Administrator as well as Purchasing and Finance staff.

We analyzed the implementation issues related to the issuance of the “City of Chesapeake Purchasing and Policies Manual”. This review included an analysis of project management and implementation delays. In addition to these items, we reviewed compliance with selected City and State policies and procedures. We reviewed related prior audits. We also reviewed various other municipalities’ performance audits of their public works departments.

## **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.**

Public Procurement should work with the City Manager's Office, Information Technology, Finance, and User Departments to develop both the Administrative Regulation and data sharing management tools to gain feedback on vendor performance for the duration of any contract. In August 2009, the City's IT Director presented Microsoft SharePoint 2007 to City Directors. The business intelligence reporting feature of SharePoint could be used to document scorecards of Key Performance Indicators (KPI) throughout the organization. As such it could be a tool for monitoring contract performance.

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

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**Updated Response – The approved promulgated Chesapeake Purchasing Policies and Procedures Manual includes Chapter 12.0 which is dedicated to Contract Administration. Chapter addresses contract administration process to include the designation of departmental contract administrators which has been implemented. Purchasing agrees that the identification and acquisition of management tools will help to monitor contract performance. Purchasing has recently requested and completed an assessment of current business processes, system usage and technical environment to determine if implementation of the PeopleSoft Contract Procurement Module would be feasible and advantageous. Purchasing's 2021 budget request included funding request for implementation of the Contract Procurement Module. Purchasing is well aware of the value of contract administration and implementation of a contract module.**

## **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 (***Code of Virginia, § 2.2-4303G***). The following small purchase procedures have been established for acquiring materials, supplies, equipment, printing, nonprofessional services and non-transportation-related construction up to \$100,000 (excluding information technology and telecommunications goods and services). Procurements made pursuant to these procedures do not require public bid openings or newspaper advertising of competitively negotiated procurements. Small purchases that are expected to exceed \$5,000 shall require the posting of a public notice. This update to the VPPA took effect on July 1, 2018.

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, the department shall use competitive sealed bidding (IFB) or competitive negotiation (RFP). The expected trade-in value of equipment shall not be considered when determining the anticipated total value of a contract. Departments are encouraged to utilize the Purchasing Division services to utilize electronic procurement websites including eVa, DemandStar or the City's website for solicitation and or posting of public notice.”

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.**

Criteria:

According to the Center for Disease Control's *Polaris* policy process

“Enactment alone doesn't ensure that a policy will be successful. Additional steps may be needed to implement the policy in a way that can increase the likelihood the policy will achieve its intended outcomes.

The implementing organization and stakeholders may:

1. Educate the people or organizations affected by the new policy
2. Change pre-existing administrative operations and systems (or create new ones)
3. Monitor and/or enforce the policy as needed”



We found that the City did not provide the education, changes and monitoring noted in the CDC's guidance prior to the implementation of the Small Purchase Policy on

December 21, 2018. The City's Finance Department did conduct a Linkage training entitled "Basic Purchasing Course; however, only 40 City staff attended, including only five Fiscal Administrators, and only one slide (out of 34) was devoted to the "small purchase policy".

This situation occurred at least in part because the City Manager's Office and City Attorney's Office chose to act quickly to get a new policy in place once they discovered that the City's prior small purchase policy was no longer in effect. However, failure to adequately train staff to implement the new manual may result in noncompliance with its requirements.

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

Purchasing has already provided training on the new policy during at least one City department head meeting. The City should explore additional opportunities, whether through Linkage or Human Resources' training curriculum, to ensure staff is aware of the updated policy requirements.

**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. Upon approval of the Chesapeake Purchasing Policies and Procedures Manual, Purchasing provided notice of implementation of the Manual on the City's inter and intra websites, notice in the Finance Department's "*The Bottom Line*", awareness and training to the City Council, City Manager's Department Heads, City Staff meeting, the aforementioned Linkage meeting, and providing procurement training at the City's quarterly Effective Supervisory Training (EST). Prior to the COVID-19 pandemic, Purchasing had developed the Procurement Users Advisory Group that was to have its initial meeting in February 2020. The Procurement Advisory Group is identified as those individuals, and their supervisors, with access to the PeopleSoft procurement module and who process requisitions and provide procurement support for their departments. The Procurement Advisory Group is designed to provide a forum for training and discussing the City's procurement process, gather feedback from the stakeholders and end users, and provide updates on changes to procurement laws and/or processes (a copy of the charter that was developed is attached as Exhibit A). Purchasing will resume the implementation of the Procurement Advisory Group when things return to the "new normal". Although the Chesapeake Purchasing Policies and Procedures Manual is a user friendly document, Purchasing will continue to seek opportunities to provide training via the website, surveys to assess knowledge needs, and exploring hour long webinars relating to procurement issues, processes and updates.

Purchasing differs with this recommendation in that procurement training should be for

the entire procurement process. Staff and end users need to be aware and continuously trained not only on Small Procurement policy but equally on procurements for professional services, competitive sealed bidding, competitive negotiations, procurements other than professional services, the methods of procurement, general purchasing policies, the purchasing cycle, change orders, protest of award or decision to award, etc. Purchasing will assess the tools and methods previously noted, and continually explore, opportunities to ensure staff receive adequate training on all aspects of the new Policies and Procedures Manual.

## **2. Cost Analysis**

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

The Small Purchase Policy required departments to estimate the total cost, including all possible renewal periods if a term contract, to determine if the procurement would exceed \$100,000. There were, however, a number of obstacles that made this estimating process more challenging than it needed to be.

We noted that City contracts could be used by any department, but Purchasing did not have a mechanism to track contracts used by multiple departments on a citywide basis. This situation occurred for several reasons:

- Purchasing had not coordinated with Finance to include contract number as a required entry field in the PeopleSoft account string for expenses.
- Purchasing did not review the cumulative payments to each vendor on a period or fiscal year interval.
- Departments submitted approved vouchers to Finance for payment processing. Finance had no mechanism or process to track total spending under any contract.

If this situation continues, Purchasing will be unable to verify the total cost of contracts. Without a monitoring process, the citywide cost may exceed the \$100,000 threshold for small purchases that would have required an additional competitive bidding process.

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

Purchasing should coordinate with Finance to include a field for contract number in account strings for PeopleSoft voucher entries. Additionally, Purchasing should frequently monitor Citywide cumulative payments to vendors. Finally, Purchasing should coordinate with departments to ensure that it is notified whenever a contract for another department is used, to ensure that the total contract costs are tracked.

**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.**

**Purchasing will endeavor to run cumulative payment reports for each vendor on a periodic or annual basis, preferably on a calendar year basis so as not to conflict with fiscal year end tasks and responsibilities. Staffing bandwidth will be problematic with review and analyzing these payment reports. The City has over 600 contracts on its active contracts listing and verification of contract spend will be daunting.**

**Purchasing in its current practice has drafted a revised Contract Administration Action (CAA) form that will include an area to insert the total dollars spent to this contract at the contract renewal phase. The form is sent by Purchasing sixty (60) days prior to contract expiration to the department's Contract Administrator, to alert them that the contract period is due to expire and to get their recommendation for renewing or cancelling the contract or initiation of a new solicitation for continuation of goods or services. The Contract Administrator will have the opportunity to review cumulative spends and to better determine how best to proceed. Purchasing's desire to have the contract numbers or accounting information identifying specific contracts within the PeopleSoft system and subsequently on associated purchase orders that will allow staff to generate spend reports and capture all dollars to specific contracts. At the present time, obtaining spend data per each contract would be a daunting task and may not generate accurate numbers due to purchase orders are not electronically tied to a contract. Purchasing will discuss with Finance the need to capture and track contract spend relating to non-P.O. voucher payments and discuss methodology for handling.**

**While engaging Finance and the EFS Team, Purchasing will recommend and request end-using departments to encumber the total anticipated contract dollar for the initial period of the contract with the issuance of the requisition in lieu of the \$1.00 place holder. Once the solicitation is completed and a contract awarded, the requisition will be converted to a master purchase order whereby all receipts, vouchers and payments will be generated and applied to this supplier and contract. If there is a multiple awarded contract, each supplier would have a separate contract.**