



**PUBLIC PROCUREMENT
TRANSITION ISSUES**

SPECIAL AUDIT

JANUARY 1, 2016 THROUGH OCTOBER 31, 2016

**CITY OF CHESAPEAKE, VIRGINIA
AUDIT SERVICES DEPARTMENT**

February 28, 2017

The Honorable Alan P. Krasnoff and
Members of the City Council
City of Chesapeake
City Hall – 6th Floor
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

We have completed our review of the Purchasing Office (Purchasing) for January 1, 2016 – October 31, 2016. Our review was conducted for the purpose of evaluating any transition issues as the City underwent a change in procurement administration. We also attempted to address any procurement transition issues raised by the interim Procurement Administrator. This audit was requested by the Acting Procurement Administrator.

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.

Purchasing provided essential services for the City of Chesapeake (City). Purchasing acquired the supplies, services, and commodities required by departments and agencies in accordance with State and City procurement laws, policies, and procedures. The office was also responsible for procurement activities required for construction and other capital projects. Purchasing conducted acquisition activities by providing procurement services and support, and distributed mail to City departments and agencies.

For Fiscal Year (FY) 2016-2017, Purchasing had an operating budget of \$943,494 and an authorized compliment of approximately 11.63 personnel, 10 located on the fifth floor of City Hall and 1.63 were located in Mail Room on the first floor of City Hall.

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 conducted interviews with various department heads, Purchasing staff, and various Finance staff and observed various processes and records.

Based on our review, we determined that Purchasing's transition efforts were generally well received by City departments. However, we did identify some issues related to centralized contract administration consistency, contract file control, vendor verification, P-Card requirements, and sealed bid control.

This report, in draft, was provided to Purchasing 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. Purchasing was very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,

Jay Poole
City Auditor
City of Chesapeake, Virginia

C: James E. Baker, City Manager
Robert N. Geis, Deputy City Manager
Richard C. Hartwick, Acting Procurement Administrator

Managerial Summary

A. Objectives, Scope and Methodology

We have completed our review of the Purchasing Office (Purchasing) for January 1, 2016 – October 31, 2016. Our review was conducted for the purpose of evaluating any transition issues as the City underwent a change in procurement administration. We also attempted to address any procurement transition issues raised by the interim Procurement Administrator. This audit was requested by the Acting Procurement Administrator.

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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 conducted interviews with various department heads, Purchasing staff, and various Finance staff and observed various processes and records.

Major Observations and Conclusions

Based on our review, we determined that Purchasing's transition efforts were generally well received by City departments. However, we did identify some issues related to centralized contract administration consistency, contract file control, vendor verification, P-Card requirements, and sealed bid control.

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B. Performance Information

Pursuant to the Purchasing Ordinance, the Procurement Administrator was delegated responsibility establishing policies and procedures governing the functions of Purchasing. Purchasing was responsible for ensuring that the procurement process was efficient, effective and fair, and that tax dollars were spent wisely.

1. Contract Administration

Contract Administration involved managing the contract to ensure it was fully executed. Administration of the contract began with the signing or execution of a contract or purchase order. The purpose of contract administration was to assure that the contractor or supplier had fulfilled its contractual obligations in accordance with the terms and conditions of the agreement. Other responsibilities included reviewing requests for changes or modifications, monitoring performance, and resolving disputes, discrepancies and deficiencies.

2. Procurement Card (P-Card)

The purpose of the Procurement Card Policy was to establish policies for the use and control of procurement cards. P-cards were assigned and utilized by designated City employees to purchase goods on behalf of the City or when authorized per this policy.

The Procurement Card Administrator and the Procurement Administrator were responsible for the implementation of the Procurement Card Program, training, and management. Policies and procedures and applicable forms were maintained and updated by the Program Administrator, as needed.

3. Contract Management

Contract management included management of contracts and contract-related activities which may include accounting, administration, auditing, grants management, law, negotiation, logistics, price-structure compensation, delegation of purchasing authority, program management, termination and other business activities. Contract management was often handled by the affected department.

4. PeopleSoft

When PeopleSoft was implemented in 2006, the contract module was purchased although the module was never implemented. The Acting Procurement Administrator had negotiated and was planning to coordinate implementation in 2017.

5. Feedback from Departments

During our discussions with department heads, the common feedback presented was that, during the transition, a noticeable change in prompt and timely completion of contracts and purchase orders had occurred. Departments noted that the Acting Procurement Administrator had promptly responded to any and all requests or complaints, and took appropriate action with a sense of urgency expected by the various departments. Additionally, the department heads expressed a need for frequent conversations with Purchasing to continually adjust process and express concerns and review lessons learned.

C. Contract Administration:

The Procurement Administrator had the role of administering of a contract to ensure the Contractor's total performance was in accordance with the contractual commitments and that the obligations of the Contractor under the terms and conditions of the contract were fulfilled. We noted that the City did not have centralized contract administration policies, and contract administration was not consistent.

1. Centralized Contract Administration

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.

NOTE: This was a repeat finding originally presented in Performance Audit 087 – Public Procurement dated June 24, 2010.

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

Response – The City's first Purchasing Policies and Procedures Manual is nearly complete and will be implemented in the very near future. Purchasing developed this manual with the help, cooperation and input from many departmental leaders and their staff.

2. Contract Administration Consistency

Finding – Contract administration practices were not consistent.

Recommendation – Purchasing should consider methods of providing consistent and equal client service.

These steps should include:

- Holding frequent internal training;
- Conversing with end users on expectations;
- Reviewing contract template;
- Developing a process for independent verification of contracted work completed as compared to scope of work.

Response – Purchasing has assigned a procurement specialist whose duties include maintaining and management of IDIQ contracts and contract renewal process. Up to date spreadsheets and management tools have been developed to accomplish this goal. Additionally, the implementation of PeopleSoft purchasing modules will automate this process.

(Note: the full text of their response is included in the audit report.)

3. Contract File Control

Finding – Control of issued contract files was inconsistent.

Recommendation – Purchasing should scan all issued contracts and addendums to digital and then make the digital contract files available for access by end user and interested parties.

Response – Purchasing has now required that all contract files are to be scanned as PDF files. Additionally, the original files are not allowed to leave the Purchasing Division office. A digital PDF copy will be sent to the requestor. Once the PeopleSoft module is implemented, all documents including but not limited to contracts, addendums, amendments, POs, requisitions, file notes and related emails will be digitally saved into the system. Purchasing hopes to go to an all-digital system in the near future.

4. Vendor Verification

Finding – The process for verifying suppliers (vendors) within PeopleSoft needed improvement.

Recommendation – Purchasing should develop a process for independent review and approval of vendors. The process should include periodic reviews of existing vendors.

Response – Purchasing is currently working with Department of Information and Technology and Finance to develop a secure process for vendor registration and verification. A new method with additional verification steps has been developed collaboratively and is being tested at this time.

5. P-Card Requirements

Finding – P-Card requirements needed to be updated.

Recommendation – Purchasing, Finance, and the City Manager office should review AR 1.23 and make necessary changes.

These changes should include:

- Listing of disallowed purchases and exceptions;
- Process for recouping disallowed charges.

Response – Purchasing recognizes the need for consistency and accountability with the P-Card system. Two new procurement specialist have been selected to maintain, administer and monitor the process. They have just completed training by Bank of America. Additionally, the new Purchasing Policy and Procedures Manual includes a section that is dedicated to the P-Card policy. Purchasing is also currently working with the City Manager's Office to update all Administrative Regulations that are related to Purchasing.

6. Sealed Bid Control

Finding – The process for maintaining and control of sealed bids needed improvement.

Recommendation – Although the keys to the filing cabinet and date/time stamp machine were removed and the filing cabinet relocated, Purchasing should continue to improve the storage and documentation of sealed bids.

Response – Purchasing has been working to reconcile all files, including the receipt of sealed bids. The PeopleSoft module that Purchasing will be implementing includes an e-bidding component wherein the bidder will file electronically their bids and/or proposals. All documents will be in a digital format when submitted, and thus hopefully, lowering the possibility of human error in the handling of the bids. The e-bidding system will automatically timestamp the submittals, send a receipt to the bidder and also to the procurement specialist.

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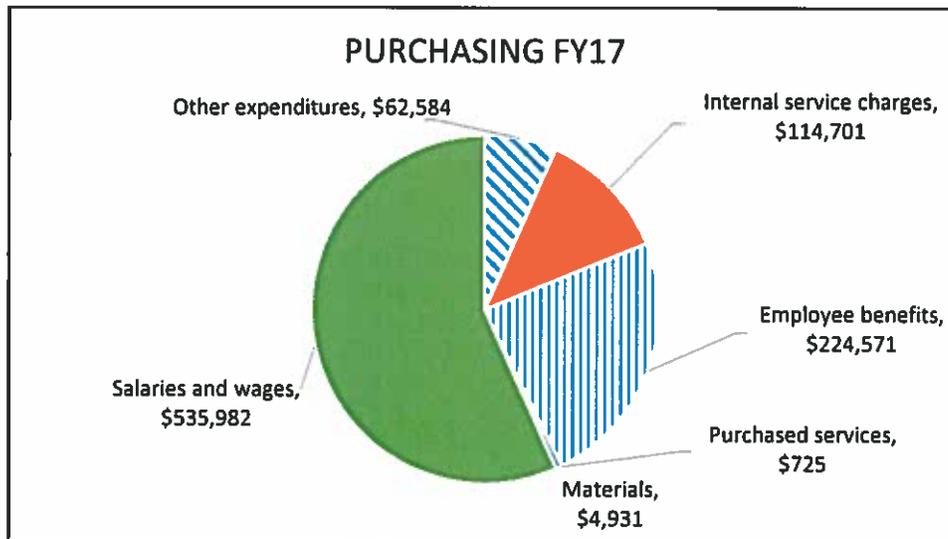
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Purchasing Budget for FY 16/17

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 conducted interviews with various department heads, Purchasing staff, and various Finance staff and observed various processes and records.

Major Observations and Conclusions

Based on our review, we determined that Purchasing's transition efforts were generally well received by City departments. However, we did identify some issues related to centralized contract administration consistency, contract file control, vendor verification, P-Card requirements, and sealed bid control.

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Methodology

To conduct this audit, we reviewed and evaluated City and Purchasing policies and procedures, and operations documents and reports, both internal and external. We also conducted interviews with various City department heads, Purchasing staff, and various Finance staff. We observed various Purchasing processes and records. We reviewed various contracts, reviewed prior audits in Chesapeake and of other municipalities, and reviewed a draft of a policies manual. We reviewed data obtained from PeopleSoft of spending.

B. Performance Information

Pursuant to the Purchasing Ordinance, the Procurement Administrator was delegated responsibility establishing policies and procedures governing the functions of Purchasing. Purchasing was responsible for ensuring that the procurement process was efficient, effective and fair, and that tax dollars were spent wisely.

Purchasing's objectives were as follows (as described in their draft operating manual):

1. Provide professional procurement services for all departments and divisions throughout the City.
2. Achieve harmonious, productive working relationships between Purchasing and the departments served.
3. Provide an uninterrupted flow of materials, supplies and services to meet operational needs.
4. Purchase of high quality goods and services at the lowest possible price.
5. Conduct all procurement processes in a fair and impartial manner without the appearance of any impropriety.
6. Increase the cost effectiveness of procurement and maximize the purchasing power of public funds.
7. Ensure the fair and equitable treatment of all vendors.
8. Foster effective broad-based competition to the maximum feasible degree while adhering to the Virginia Public Procurement Act (VPPA), City regulations policy and procedures and applicable laws.
9. Safeguard the integrity of the procurement system, protecting against corruption, waste, fraud and abuse. The expenditure of public funds warrants the highest degree of public trust.

1. Primary role – competitive bid review

The following table shows the number of contracts processed by Purchasing during FY2016.

Table 1
Number of contracts issued during FY2016

Department	Contracts	IDIQ	Co-op (originated by another jurisdiction)
Budget	1	1	1
City Garage	35	33	29
CIBH	8	1	7
City Manager	1	1	1
Community Service Board	2	2	1

Department	Contracts	IDIQ	Co-op (originated by another jurisdiction)
Development and Permits	1	1	
Department of Information Technology	12	12	5
Finance	2	1	1
Fire	5	5	3
Human Resources	1	1	1
Human Services	2	2	1
Library	5	5	4
Parks, Recreation and Tourism	11	10	5
Police Department	13	12	9
Planning	1	1	
Sheriff	2	2	
Public Utilities	31	19	9
Public Works	41	26	10
Treasurer	1	1	
TOTAL	175	136	87

2. Contract Administration

Contract Administration involved managing the contract to ensure it was fully executed. Administration of the contract began with the signing or execution of a contract or purchase order. The purpose of contract administration was to assure that the contractor or supplier had fulfilled its contractual obligations in accordance with the terms and conditions of the agreement. Other responsibilities included reviewing requests for changes or modifications, monitoring performance, and resolving disputes, discrepancies and deficiencies.

3. Procurement Card (P-Card)

The purpose of the Procurement Card Policy was to establish policies for the use and control of procurement cards. P-cards were assigned and utilized by designated City employees to purchase goods on behalf of the City or when authorized per this policy. This policy was intended to accomplish the following:

1. Ensure procurement card purchases were conducted in accordance with the City's established ordinances, policies and procedures.
2. Ensure appropriate internal controls were established within each department utilizing the procurement cards, so that they were used only for authorized purposes.
3. Ensure that the City bore no legal liability from inappropriate use of procurement

cards.

4. Require disciplinary action for the misuse of the purchasing cards.
5. Provide standards for the use of procurement cards, thus authorizing other departments to establish additional controls beyond those suggested by these policies.

The Procurement Card Administrator and the Procurement Administrator were responsible for the implementation of the Procurement Card Program, training, and management. Policies and procedures and applicable forms were maintained and updated by the Program Administrator, as needed.

4. Contract Management

Contract management included management of contracts and contract-related activities which may include accounting, administration, auditing, grants management, law, negotiation, logistics, price-structure compensation, delegation of purchasing authority, program management, termination and other business activities. Contract management was often handled by the affected department.

6. PeopleSoft

When PeopleSoft was implemented in 2006, the contract module was purchased although the module was never implemented. The Acting Procurement Administrator had negotiated and was planning to coordinate implementation in 2017.

7. Feedback from Departments

During our discussions with department heads, the common feedback presented was that, during the transition, a noticeable change in prompt and timely completion of contracts and purchase orders had occurred. Departments noted that the Acting Procurement Administrator had promptly responded to any and all requests or complaints, and took appropriate action with a sense of urgency expected by the various departments. Additionally, the department heads expressed a need for frequent conversations with Purchasing to continually adjust process and express concerns and review lessons learned.

C. Contract Administration:

The Procurement Administrator had the role of administering of a contract to ensure the Contractor's total performance was in accordance with the contractual commitments and that the obligations of the Contractor under the terms and conditions of the contract were fulfilled. We noted that the City did not have centralized contract administration policies, and contract administration was not consistent.

1. Centralized Contract Administration

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.

NOTE: This was a repeat finding originally presented in Performance Audit 087 – Public Procurement dated June 24, 2010.

In order to ensure that the City received the value it anticipated receiving from contracts, it needed to have centralized contract administration policies and procedures. These procedures would provide managers with the tools necessary to monitor and manage both vendor performance and expenditures on City contracts.

We noted that the City had no centralized policies and procedures for contract administration. Therefore the responsibility for monitoring contract activity was left to individual departments, and few departments had procedures that extensively addressed contract administration.

This situation occurred because the City had not developed a centralized administrative regulation that addressed contract administration policies and procedures, threshold amount(s), purchase order amount(s), and corresponding payment(s).

The absence of contract administration policies and procedures, combined with the City's decisions not to implement the contract administration modules from the PeopleSoft system, resulted in great difficulty for either Public Procurement or the departments in monitoring contracts and their related expenditures.

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

Response – The City's first Purchasing Policies and Procedures Manual is nearly complete and will be implemented in the very near future. Purchasing developed

this manual with the help, cooperation and input from many departmental leaders and their staff.

2. Contract Administration Consistency

Finding – Contract administration practices were not consistent.

According to City of Chesapeake Ordinance Specifications for supplies, services and construction, Chapter 54-34. (a) Under the oversight of the city manager or designee, the procurement Administrator or designee shall prepare, issue, revise, maintain, and monitor the use of specifications for supplies, services, and construction required by the city, provided that: (1) The procurement Administrator or designee shall obtain expert advice and assistance from personnel of using departments in the development of specifications and may delegate to using departments responsibility for the preparation and maintenance of specifications generally or for specific supplies, services or construction, subject to approval of any such specifications by the procurement Administrator or designee.

Department heads indicated that in the past Purchasing's staff rotation created inconsistent "turn around" on contracts, change orders, and purchase orders. We interviewed Purchasing staff and found there was inconsistent departmental training in several areas including changes to the Virginia Public Procurement Act.

We also noted the following:

- Purchasing relied on departments to provide oversight of the City contractors to ensure compliance with pricing agreements and scope of work. Although the role of oversight was delegated by convention to departments, there was essentially no independent verification of the fulfillment of scope of work or compliance with pricing agreements by Purchasing.
- Indefinite delivery/indefinite quantity (IDIQ) contracts typically included an annual contract amount as prescribed in Appendix A, Section II of contracts. The IDIQ section required specific written approval by the Procurement Administrator to exceed that amount. Purchasing did not track the Citywide spending on IDIQ contracts to ensure that annual contract amounts were not exceeded.
- Several areas within contract documents such as "Litigation Disclosure Form" were not consistently verified by Purchasing. Also, the Litigation Disclosure Form was specific for Virginia instead of including other areas, especially for national and regional companies. Additionally, Consumer Price Index (CPI) or Producers Price Index (PPI) were instruments for price escalation/de-escalation, but contracts did not define specific indexes or periods.

- Department heads indicated that contracts were not readily available to compare scope of work or pricing agreements for goods or services received. Purchasing indicated signed contracts were given to department end-users for intradepartmental use. However, this practice was not consistent. Also, Purchasing did not consistently digitally scan signed contracts to a location Citywide accessible.

These conditions occurred because of lack of sufficient departmental training to ensure all clients received consistent and equal service; 2) contract standards were not sufficiently reviewed; and 3) Purchasing was not adequately staffed to provide client services. If these situations continue there will continue to be inconsistent client service. Additionally, without adequate contract administration there was risk of errors in contracts, and departments developing work-arounds to facilitate customer service requests. However, it should be noted that all of the departments cited significant improvement in client services since the current Acting Procurement Administrator took over.

Recommendation – Purchasing should consider methods of providing consistent and equal client service.

These steps should include:

- Holding frequent internal training;
- Conversing with end users on expectations;
- Reviewing contract template;
- Developing a process for independent verification of contracted work completed as compared to scope of work.

Also, Purchasing should identify and review metrics such as staff hours expended on each contract, change orders, and purchase orders to ensure justification of staffing levels.

Response – Purchasing has assigned a procurement specialist whose duties include maintaining and management of IDIQ contracts and contract renewal process. Up to date spreadsheets and management tools have been developed to accomplish this goal. Additionally, the implementation of PeopleSoft purchasing modules will automate this process.

Purchasing agrees that additional internal training is needed. Currently, legal review and requirements are being conducted on a “one on one” basis with each procurement specialist. Purchasing has enlisted the help of the Department of Information and Technology for PeopleSoft training specific to the purchasing processes. Purchasing has also identified the need for document consistency and is currently developing new templates that are accurate (error free) and comply with all legal requirements. The implementation of the PeopleSoft module for purchasing will give supervisors and management the tools necessary to verify

and analyze work production, employee accountability.

3. Contract File Control

Finding – Control of issued contract files was inconsistent.

Public Procurement was responsible for maintaining the original contract files and its supporting documentation. According to City of Chesapeake Ordinance Specifications for supplies, services and construction, Chapter 54-34. (a) Under the oversight of the city manager or designee, the Procurement Administrator or designee shall prepare, issue, revise, maintain, and monitor the use of specifications for supplies, services, and construction required by the city, provided that: (1) The procurement Administrator or designee shall obtain expert advice and assistance from personnel of using departments in the development of specifications and may delegate to using departments responsibility for the preparation and maintenance of specifications generally or for specific supplies, services or construction, subject to approval of any such specifications by the procurement Administrator or designee.

We noted that once a contract had been issued, the original file and its supporting documentation was maintained in filing cabinets which were not secured to limit access. Although there was a file checkout sheet for each file, the checkout procedure was not consistently used which allowed the files to go missing. For instance, Audit Services had scanned to digital several copies of original contracts and their addendums for other audits. At least three of those scanned copies were used by Purchasing after Purchasing was unable to locate their missing contract file. Finally, a Library of Virginia's Certificate of Records Destruction (Form RM-3) documented the destruction of contract files done 2015 during a batch document destruction effort. There were no entries of which specific contracts were destroyed, only date range.

This situation occurred because of Purchasing had not developed sufficient procedures related to access and control of contract files and adjustments. If this situation continues, there is risk that contract files may not be available in the event of a protest or suit. Additionally, there could be limited enforcement of the scope of work or pricing agreements if Purchasing lacks access to the contract file.

Recommendation – Purchasing should scan all issued contracts and addendums to digital and then make the digital contract files available for access by end user and interested parties.

Purchasing should scan to digital all contract supporting documents into separate files for each contract. Also, Purchasing should review their process for lending contract files and institute access control to timely monitor file location, and document specific files that are destroyed to ensure any misfiled contracts were not destroyed in a batch.

Response – Purchasing has now required that all contract files are to be scanned as PDF files. Additionally, the original files are not allowed to leave the Purchasing Division office. A digital PDF copy will be sent to the requestor. Once the PeopleSoft module is implemented, all documents including but not limited to contracts, addendums, amendments, POs, requisitions, file notes and related emails will be digitally saved into the system. Purchasing hopes to go to an all-digital system in the near future.

4. Vendor Verification

Finding – The process for verifying suppliers (vendors) within PeopleSoft needed improvement.

Purchasing's Attachment A: Instructions and Checklist for Supplier Setup (dated 11/09/2015) stated "This document was a guide to assist with the submission of supplier address changes and new supplier establishment to the PeopleSoft Supplier Maintenance System. All necessary forms were listed on the CityPoint Purchasing and Procurement website."

Not all vendors were suppliers of goods or services. Some vendors were City employees and other groups receiving refunds to recoup personal funds such as travel expenses. Employees were grouped together with suppliers of goods or services and separated by a category classification. Departments other than Purchasing entered employees and others as vendors.

Departments were the main source of vendor entries into PeopleSoft. Typically, the department identified the vendor and submitted a "Supplier Registration and Disclosure" form. There was no Citywide standard for conducting vendor verification of prior to department approval: Also,

- The tax identification number was not verified prior to approval.
- Vendor's address and phone numbers were not compared to employees' addresses and phone numbers.
- Chesapeake business licenses (where applicable) were not verified.

Five of six Procurement Specialists had permission in PeopleSoft to approve vendors. The approvers verified PeopleSoft entries to the "Supplier Registration and Disclosure" form as the basis for authorizing approval. Purchasing did not conduct independent verification of vendors prior to approval, instead relying on departmental approval. Also, Changes to "Remit to" addresses were not consistently and independently reviewed to ensure that the vendor requested a change of address, and there was no scheduled periodic and independent verification of the vendor list to ensure vendor was

still active.

These situations occurred because there was no Citywide standardized process for verification of vendors. If these conditions continue, there was continued risk of fraudulent vendors being approved and added to the PeopleSoft financial system for payment. Additionally, there was risk of unauthorized alteration to vendor records. Although the fraud was detected before theft occurred in 2016 a locality in Virginia had several vendors' information altered without permission.

Recommendation – Purchasing should develop a process for independent review and approval of vendors. The process should include periodic reviews of existing vendors.

In order to reduce risk of potential fraud from unauthorized adjustments to vendors, Purchasing should set the internal controls with reviews and processes. The process should include verification of the tax ID number, addresses, phone numbers, and business license status.

Response – Purchasing is currently working with Department of Information and Technology and Finance to develop a secure process for vendor registration and verification. A new method with additional verification steps has been developed collaboratively and is being tested at this time.

5. P-Card Requirements

Finding – P-Card requirements needed to be updated.

City Administrative Regulation (AR) 1.23 was originally issued on September 5, 2008. It had not been updated, so it contained information which was obsolete and the process was not consistent with updated practices. The AR did not include a listing of prohibited purchases which were added in 2016 Program Manager training. Additionally, the AR did not provide a mechanism or authority for collecting disallowed charges.

We also noted the following:

- P-Cards were initially received by Purchasing. Once received, the P-Card Administrator would open the envelope to retrieve the P-Card and issue a letter advising the card holder, also notifying the user and scheduling training. The P-Card Administrator left the P-Card envelope on a book shelf until issued to the user. Purchasing did not have a safe to hold the P-Cards until issued to the user.
- Although there were no card charges, a former employee was listed as active card holder for over eight months. The P-Card Administrator had no record of having been notified of the termination.

- There was no consistent regularly scheduled training after the initial training for departmental P-Card liaisons, department reconcilers, and Payment Administrators, resulting in inappropriate card use. An example was departments authorizing P-Card for purchases which included taxes.

This situation occurred because policies and procedures had not kept up with changes in practices and staff training was not ongoing. Additionally, notifications and approval mistakes occurred due to lack of notification from departments.

If these conditions were not corrected the City's P-Card process could continue to have approvals for disallowed purchases, and inconsistent review. Also, without a current and comprehensive Citywide process there will be inconsistent review and approval in each stage of the process.

Recommendation – Purchasing, Finance, and the City Manager office should review AR 1.23 and make necessary changes.

These changes should include:

- Listing of disallowed purchases and exceptions;
- Process for recouping disallowed charges.

Also, Purchasing should obtain a safe to hold received P-Cards until they were issued, the Purchasing P-Card Administrator should consult with Finance and hold training as required to improve consistency, and Human Resources should add the P-Card Administrator to the monthly notice of terminated employees. Furthermore, the P-Card Administrator should review the notice and make timely changes to the authorized users listing.

Response – Purchasing recognizes the need for consistency and accountability with the P-Card system. Two new procurement specialist have been selected to maintain, administer and monitor the process. They have just completed training by Bank of America. Additionally, the new Purchasing Policy and Procedures Manual includes a section that is dedicated to the P-Card policy. Purchasing is also currently working with the City Manager's Office to update all Administrative Regulations that are related to Purchasing.

6. Sealed Bid Control

Finding – The process for maintaining and control of sealed bids needed improvement.

According to City Ordinance Section 54-63.6.a.2 - Competitive sealed bidding.
"The work papers shall be delivered by the bidder in person or by registered mail at or

prior to the time fixed for the opening of bids. The bids shall be opened one day following the time fixed for the submission of bids.”

Purchasing’s process for receiving sealed bids was to date/time stamp the sealed envelope supplied by vendor, log in receipt of the sealed bid, and then place the sealed envelope inside the filing cabinet. The process had the buyer assigned to the project retrieve the submitted envelopes and open them at the appropriate time.

The date/time stamp machine’s access panel key was in the lock. The key to the filing cabinet for sealed bids was also in the lock. The ready availability of the keys increased the risk of a late submission being stamped and placed in the cabinet. The filing cabinet was located in the public side of Purchasing. (NOTE: The keys were immediately removed when Acting Procurement Administrator was informed.)

In addition, a sealed bid for a tourist center project had been incorrectly placed in the wrong location and was not included in the opening process. This resulted in the award being voided requiring it to be placed again for competitive sealed bidding, and delaying the project.

This situation occurred due to a lack of situational awareness by Purchasing staff. The keys to the date/time stamp machine were left in the machine due to occasional loss of power. The machine did not have a battery backup to maintain time during power outages. Additionally, a sealed bid not being included in the opening occurred due to logging and misfiling of the envelope. If the process and conditions were not improved there was increased risk of competitive sealed bids being compromised.

Recommendation – Although the keys to the filing cabinet and date/time stamp machine were removed and the filing cabinet relocated, Purchasing should continue to improve the storage and documentation of sealed bids.

Purchasing should consider the following:

- Using a date/time stamp machine with battery backup;
- Checking the surrounding area for misfiled envelopes;
- Request that the vendor send a separate notification that sealed bid was sent. This notification would be to reconcile log and envelopes versus expected.

Response – Purchasing has been working to reconcile all files, including the receipt of sealed bids. The PeopleSoft module that Purchasing will be implementing includes an e-bidding component wherein the bidder will file electronically their bids and/or proposals. All documents will be in a digital format when submitted, and thus hopefully, lowering the possibility of human error in the handling of the bids. The e-bidding system will automatically timestamp the submittals, send a receipt to the bidder and also to the procurement specialist.

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MEMORANDUM

To: Jay Poole, City Auditor
From: Richard C. Hartwick, Acting Procurement Administrator *RCH*
Re: Public Procurement Transition Issues, Special Audit
Date: February 22, 2017

The Purchasing Division would like to thank Audit Services, especially Jay Poole, Keith Jeter and all the additional staff that worked on this audit. We appreciate the time and effort that you put into our request.

Purchasing has reviewed the audit and agrees with all of the recommendations that Audit Services has made.

Purchasing recognizes the need to make substantial changes in its administrative practices. We have identified many significant areas that are in need of improvement. We are systematically reviewing and analyzing every process we employ in performing our required duties.

Our goal is to be accurate, responsive and efficient in all of our endeavors while providing the best customer service to our internal departments, outside contractors/vendors and the citizens of Chesapeake.

We have been working diligently on improving our performance. We have nearly completed the City's first Purchasing Policy and Procedures Manual. We are currently preparing a comprehensive update of Chesapeake City Code Section 54 to be compliant with recent Virginia law changes and the policy and procedure manual. Additionally, we are working with the City Manager's Office to re-write and update the Administrative Regulations that relate to Purchasing.

However, we are most excited about the opportunity to implement the PeopleSoft Purchasing modules that will greatly enhance the efficiency and accountability of the Purchasing Division. Purchasing is working with the City Manager's Office and the Department of Information and Technology to implement the software and schedule the necessary training for Purchasing staff.

Purchasing has made a lot of progress over the last 8 months, but we realize that there is a lot more to be done. Again, I would like to thank you for your hard work and the information that you have provided the Purchasing Division.

1. Centralized Contract Administration

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.

NOTE: This was a repeat finding originally presented in Performance Audit 087 – Public Procurement dated June 24, 2010.

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

Response – The City’s first Purchasing Policies and Procedures Manual is nearly complete and will be implemented in the very near future. Purchasing developed this manual with the help, cooperation and input from many departmental leaders and their staff.

2. Contract Administration Consistency

Finding – Contract administration practices were not consistent.

Recommendation – Purchasing should consider methods of providing consistent and equal client service.

Response – Purchasing has assigned a procurement specialist whose duties include maintaining and management of IDIQ contracts and contract renewal process. Up to date spreadsheets and management tools have been developed to accomplish this goal. Additionally, the implementation of PeopleSoft purchasing modules will automate this process.

Purchasing agrees that additional internal training is needed. Currently, legal review and requirements are being conducted on a “one on one” basis with each procurement specialist. Purchasing has enlisted the help of the Department of Information and Technology for PeopleSoft training specific to the purchasing processes. Purchasing has also identified the need for document consistency and is currently developing new templates that are accurate (error free) and comply with all legal requirements. The implementation of the PeopleSoft module for purchasing will give supervisors and management the tools necessary to verify and analyze work production, employee accountability.

3. Contract File Control

Finding – Control of issued contract files was inconsistent.

Recommendation – Purchasing should scan all issued contracts and addendums to digital and then make the digital contract files available for access by end user and interested parties.

Purchasing should scan to digital all contract supporting documents into separate files for each contract. Also, Purchasing should review their process for lending contract files and institute access control to timely monitor file location, and document specific files that are destroyed to ensure any misfiled contracts were not destroyed in a batch.

Response – Purchasing has now required that all contract files are to be scanned as PDF files. Additionally, the original files are not allowed to leave the Purchasing Division office. A digital PDF copy will be sent to the requestor. Once the PeopleSoft module is implemented, all documents including but not limited to contracts, addendums, amendments, POs, requisitions, file notes and related emails will be digitally saved into the system. Purchasing hopes to go to an all-digital system in the near future.

4. Vendor Verification

Finding – The process for verifying suppliers (vendors) within PeopleSoft needed improvement.

Recommendation – Purchasing should develop a process for independent review and approval of vendors. The process should include periodic reviews of existing vendors.

In order to reduce risk of potential fraud from unauthorized adjustments to vendors, Purchasing should set the internal controls with reviews and processes. The process should include verification of the tax ID number, addresses, phone numbers, and business license status.

Response – Purchasing is currently working with Department of Information and Technology and Finance to develop a secure process for vendor registration and verification. A new method with additional verification steps has been developed collaboratively and is being tested at this time.

5. P-Card Requirements

Finding – P-Card requirements needed to be updated.

Recommendation – Purchasing, Finance, and the City Manager office should review AR 1.23 and make necessary changes.

Response – Purchasing recognizes the need for consistency and accountability with the P-Card system. Two new procurement specialist have been selected to maintain, administer and monitor the process. They have just completed training

by Bank of America. Additionally, the new Purchasing Policy and Procedures Manual includes a section that is dedicated to the P-Card policy. Purchasing is also currently working with the City Manager's Office to update all Administrative Regulations that are related to Purchasing.

6. Sealed Bid Control

Finding – The process for maintaining and control of sealed bids needed improvement.

Recommendation – Although the keys to the filing cabinet and date/time stamp machine were removed and the filing cabinet relocated, Purchasing should continue to improve the storage and documentation of sealed bids.

Response – Purchasing has been working to reconcile all files, including the receipt of sealed bids. The PeopleSoft module that Purchasing will be implementing includes an e-bidding component wherein the bidder will file electronically their bids and/or proposals. All documents will be in a digital format when submitted, and thus hopefully, lowering the possibility of human error in the handling of the bids. The e-bidding system will automatically timestamp the submittals, send a receipt to the bidder and also to the procurement specialist.

