

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.

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.

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.

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.

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.