



# Procurement Processes

*Report Period: July 2017 – June 2020*

*Report Date: May 31, 2022*

## **Office of the City Auditor**

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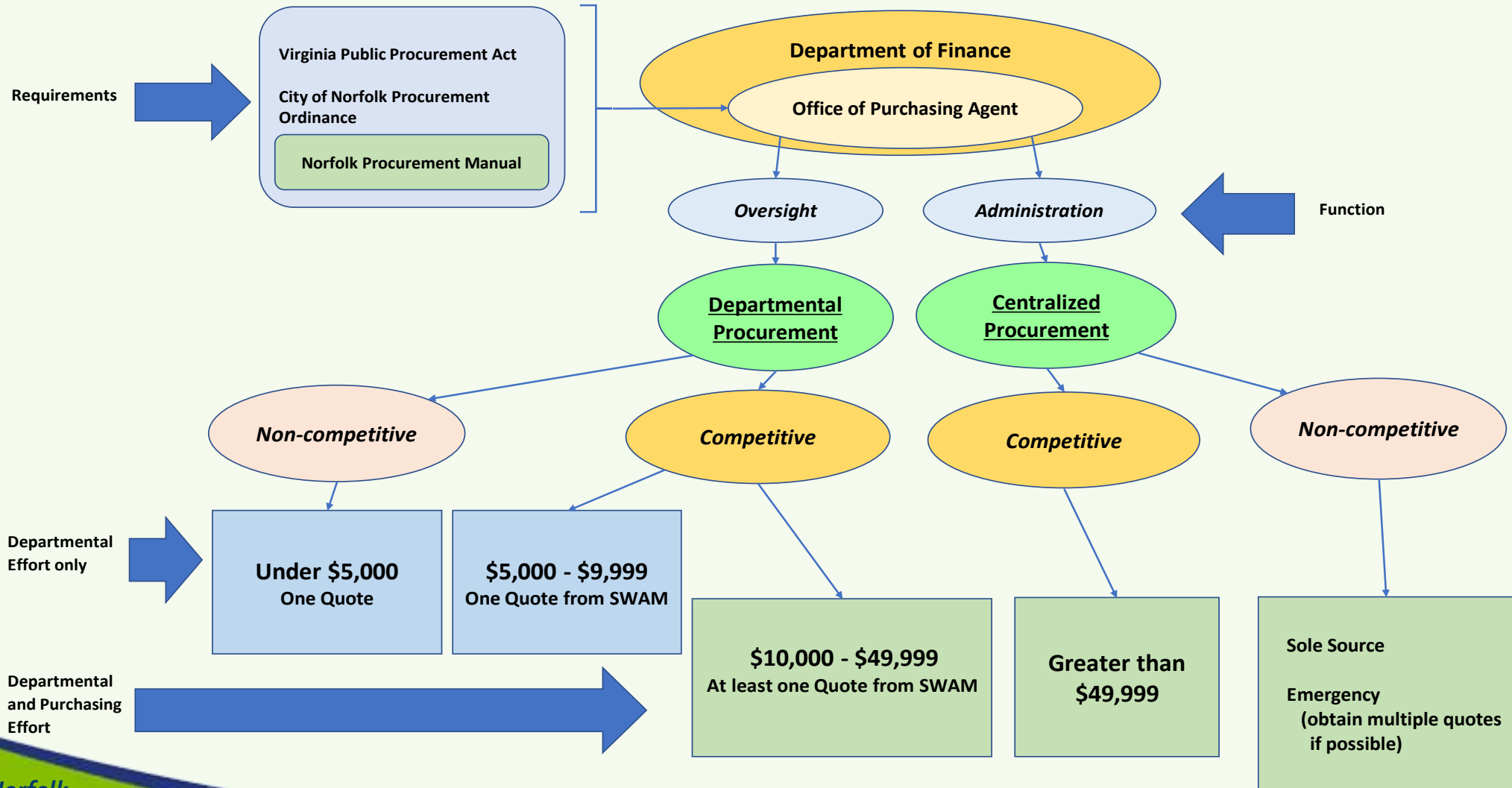
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**Report No. 21-05**

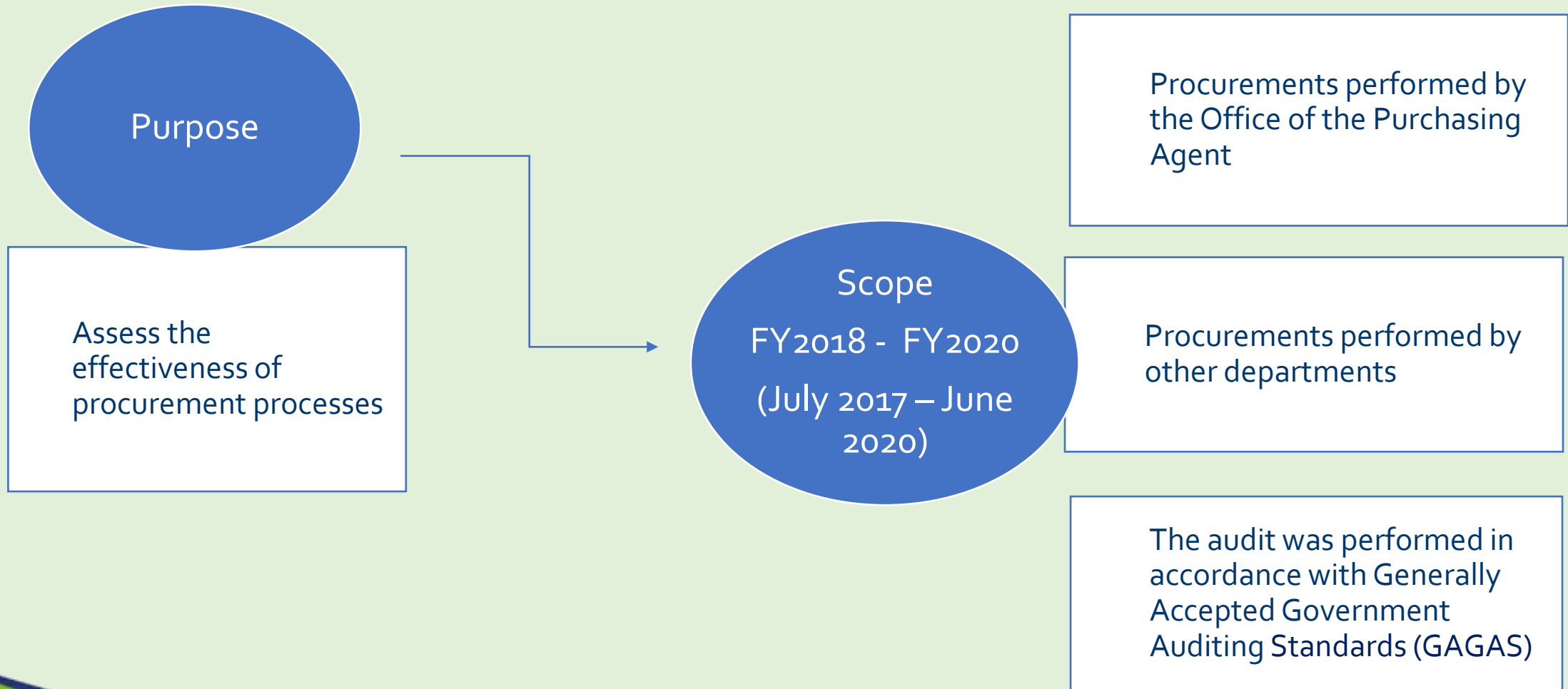
# Procurement Processes

- From nuts and bolts to fire engines and cell phones to computer systems
- Goods and services must be procured to enable each department to fulfill its mission
  - Items are common to many departments, but some are department specific
- Processes are designed to improve procurement effectiveness and efficiency, while maintaining controls and assuring propriety and compliance with legal and regulatory requirements

# Overview of Procurement Processes Effective July 1, 2021



# Purpose and Scope



# Improvement Efforts by Purchasing

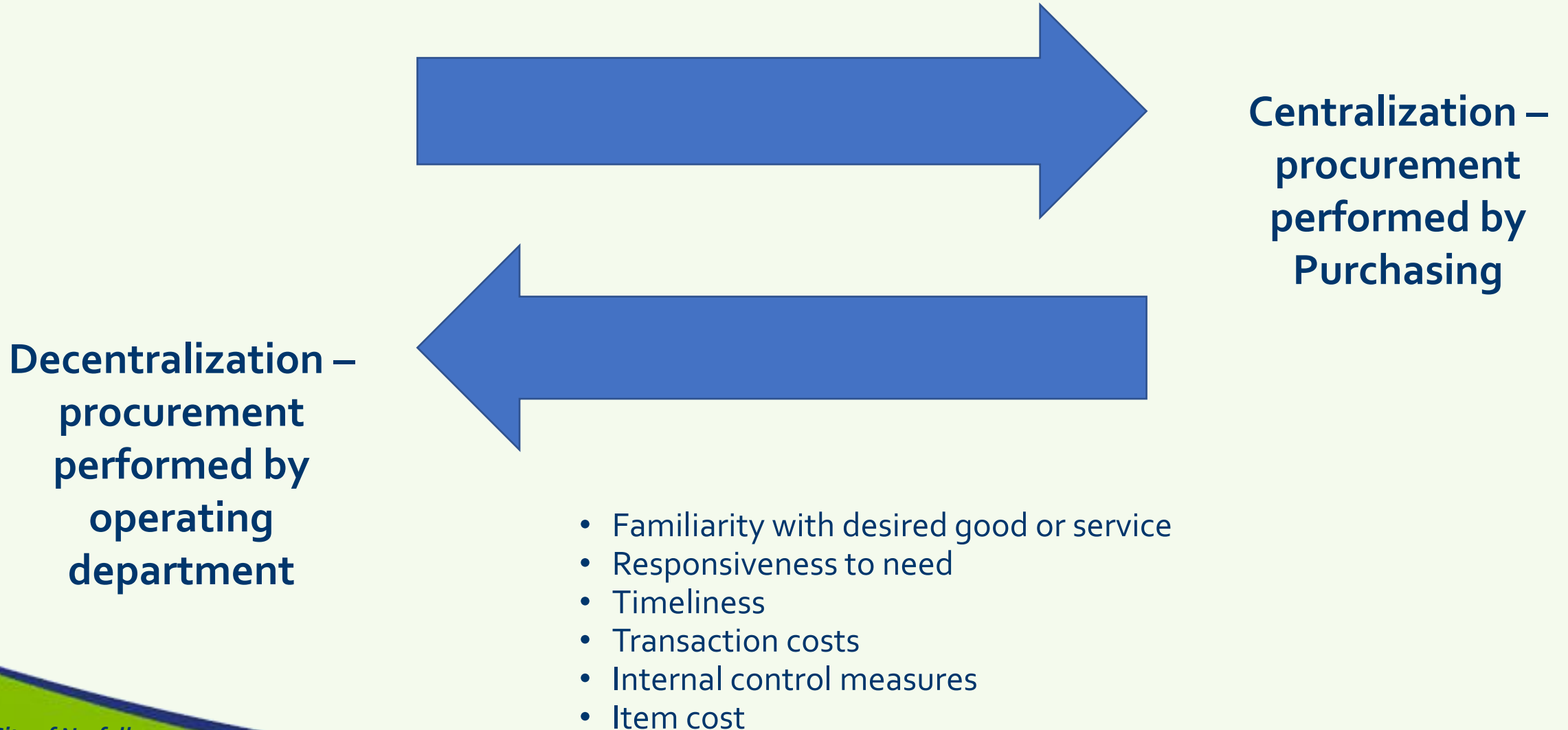
- All new, comprehensive Procurement Manual issued in 2020 (updated in 2021) – prior manual (2009) was of strictly limited value
  - Procurement Manual updated to include City Council-approved (December 2020) requirements encouraging procurement from Micro/SWAM/Veteran/Disabled-owned vendors
- Processes have been implemented to address non-competitive procurements and unauthorized procurements
- For contracts in excess of \$50,000 - Implementation of ProcureNow which is now OpenGov (electronic procurement management system), and DocuSign (electronic signature system) increased efficiency and improved documentation

# Results of Improvement Efforts

- Increased interaction with operating departments
  - Ongoing training opportunities provided to departments
  - Additional required training for higher level purchasing authorization
  - Established Purchasing User Group
  - Monthly meetings with departments
- User survey responses from December 2020 indicate significant improvement in satisfaction and effectiveness
- Purchasing received three national honors recognizing performance

# Centralization v. Decentralization

*Seeking balance point between controls and costs*



# AFMS Documents Used for Decentralized Procurement

- **PO – purchase order** - initiated at departmental level
  - 6/30/21 and prior – purchases up to \$5,000
  - 7/1/21 and after
    - Purchases up to \$10,000 with a required Micro, SWAM (Small, Woman and Minority-owned business), Veteran, Disabled-owned vendor quote between \$5,000 and \$10,000
    - Three basic Purchasing training classes required for departmental users
  - Department obtains vendor quotes and issues purchase order
- **DO – delivery order** - initiated at departmental level based on established contract
  - Contract created based on solicitation issued by Purchasing which is used to establish expenditures limits in AFMS
  - Usage limited to authorized departments
  - Total amount purchased is limited to contract total – there may also be limits at the individual transaction level based on underlying agreement
  - Department issues delivery order directly to vendor



# Methods of Decentralized Procurement

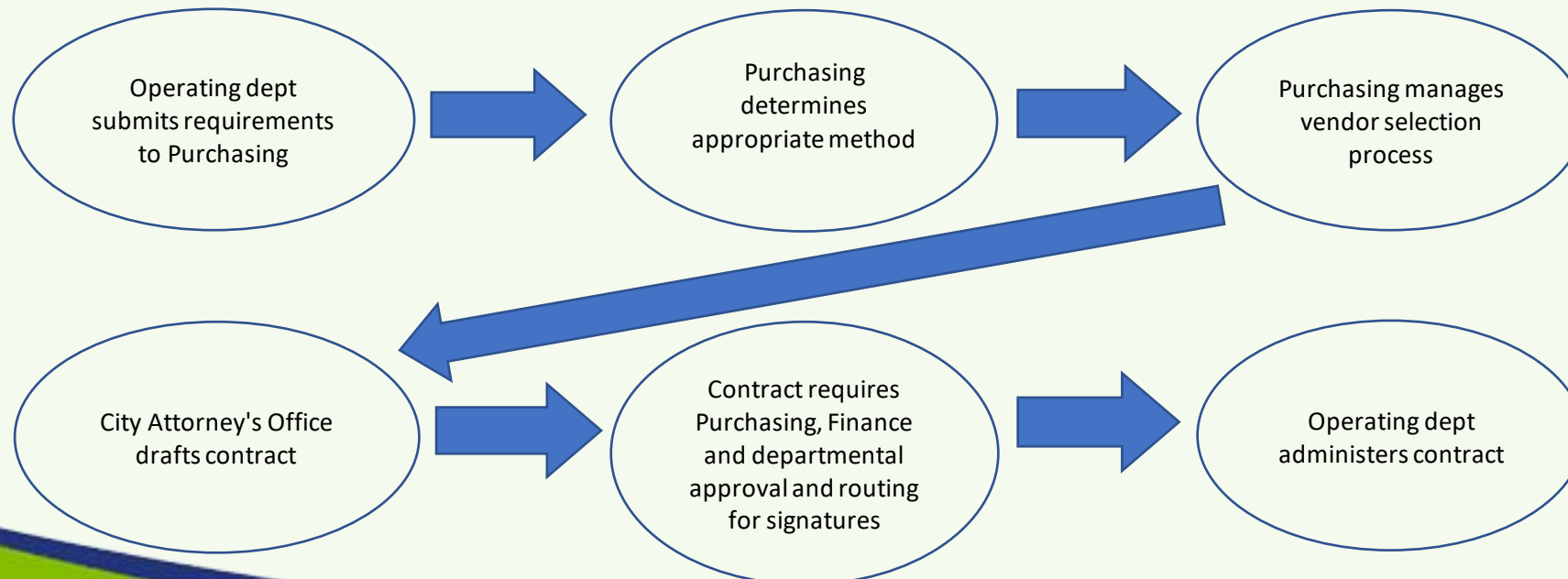
- **Bank of America purchase card (p-card)** – procurement at department level
- Finance encourages p-card usage in lieu of Purchase Order
  - Advantages
    - User convenience
    - Reduced transaction costs
    - Immediacy of payment to vendor
    - Spending controls – at both transaction and monthly account levels
  - Disadvantages
    - Outside of encumbrance process i.e., reduced budgetary controls, however compensating management controls are used
    - No separation of functions (multiple levels of approvals) at point of procurement, however, review of purchases made each month by Department and quarterly by the City Auditor's Office

# AFMS Documents Used for Centralized Procurement

- **PC – purchase order** - issued by Purchasing
  - 6/30/21 and prior – in excess of \$5,000
  - 7/1/21 and after – in excess of \$10,000 with a required Micro/ SWAM/ Veteran/Disabled-owned vendor quote among three required quotes
  - Department provides quotes to Purchasing
  - Purchasing reviews quotes and obtains additional quotes as needed
  - Purchasing issues purchase order

# AFMS Documents Used for Centralized Procurement

- **CT – contract** - solicitation by Purchasing
  - Formal solicitation
    - Single one-time procurement (example: equipment such as a street sweeper)
    - Procurement contract allowing multiple purchases (example: chemicals for water treatment plant purchased periodically over multiple years)
    - Cooperative purchase can be used
  - Creates encumbrance which limits spending to contract amount



# Methods of Centralized Procurement

- **Cooperative Purchases** - Multiple public entities purchase from same contractor using a single Invitation for Bids or Request for Proposals
  - Cooperative procurement – entities combine requirements to obtain advantages of reduced cost and procurement efficiencies for volume purchases
    - ❖ Each entity (locality) issues its own separate contract
  - Rider (“piggyback”) contracts – City can use contract developed by other public entities (state or local governments or purchasing cooperatives)
    - ❖ City Attorney’s Office creates Rider Contract

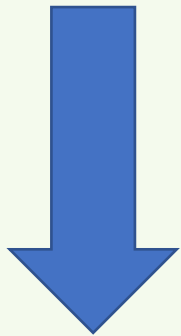
# Methods of Centralized Procurement

- **Cooperative Purchases** - Certain goods and services are well-suited for these processes. Examples include:
  - Equipment and vehicle acquisition
  - Phone services
  - Office supplies
  - Maintenance and repair supplies

<b>Number of Procurements</b>		
	<b>FY2019</b>	<b>FY2020</b>
<b>Cooperative purchase</b>	<b>62</b>	<b>44</b>
FY2018 data not available		

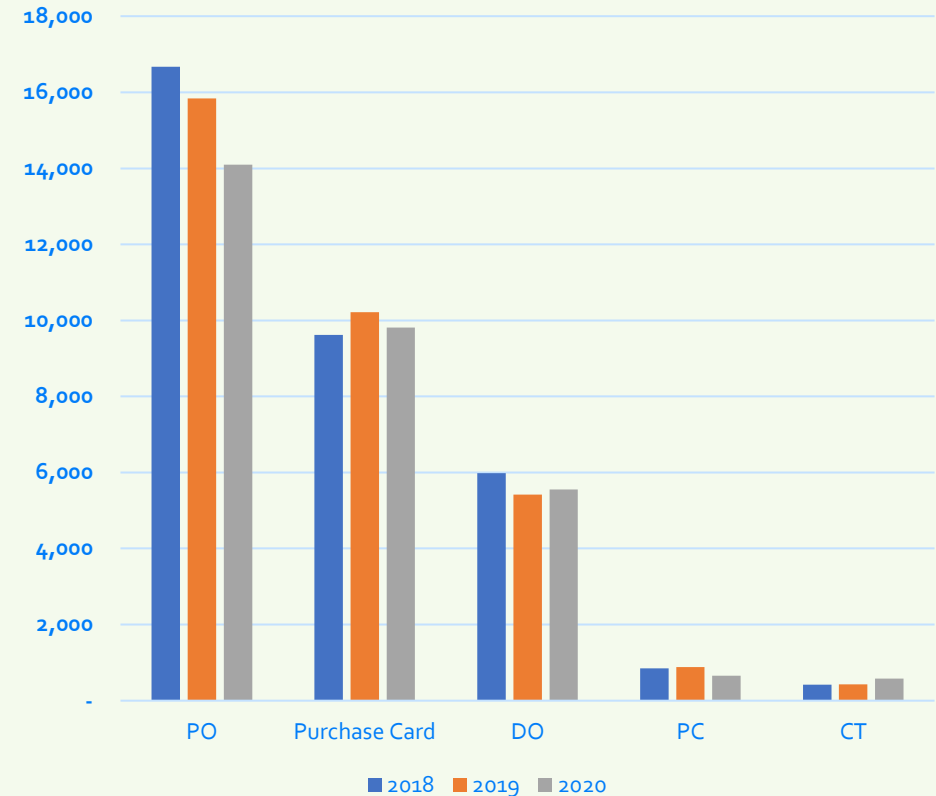
# Number of Transactions by Document Type FY2018 – FY2020

Decentralized



Centralized

Document Type	2018	2019	2020
PO	16,675	15,839	14,094
Purchase Card	9,620	10,219	9,811
DO	5,983	5,416	5,551
PC	842	876	652
CT	414	423	579
<b>Total</b>	<b>33,534</b>	<b>32,773</b>	<b>30,687</b>



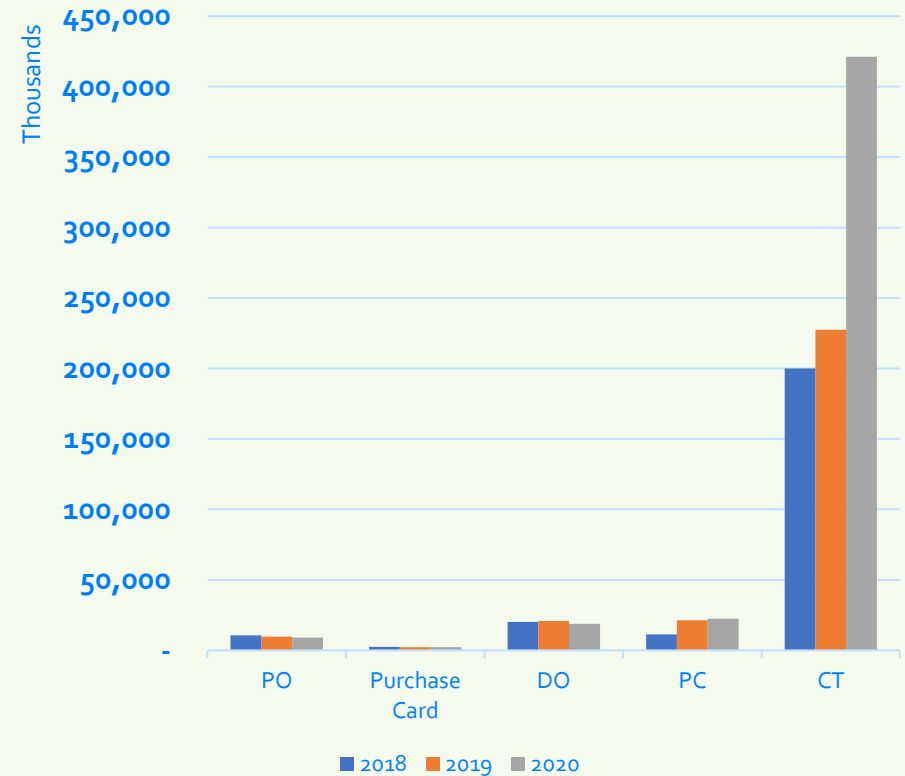
# Transaction Dollar Amounts FY2018 – FY2020

Decentralized



Centralized

Document Type	2018	2019	2020
PO	10,578,926	9,792,686	9,109,190
Purchase Card	2,407,707	2,313,935	2,219,622
DO	20,214,099	20,792,449	18,771,294
PC	11,284,184	21,185,255	22,337,400
CT	200,008,775	227,387,917	421,182,477
<b>Total</b>	<b>244,493,692</b>	<b>281,472,243</b>	<b>473,619,982</b>



Note that for contracts, these amounts are typically expended over multiple subsequent years. Large increase in FY2020 is due to renewals and amendments including initial contract amount.

# Audit Conclusions

## Competitive Procurement

- **Contracts – documentation in Laserfiche repository**
  - ***Finding*** - Some contracts, amendments or renewals could not be found in the Laserfiche record repository (7 of 82 contracts reviewed – 8%)
  - ***Finding*** – Some contracts in Laserfiche were not fully executed copies
    - Missing dates (2 of 82 and 4 additional examples found in further Laserfiche review)
    - Missing signatures (11 of 82 and 4 additional examples found in further Laserfiche review)
  - ***Finding*** – Some contracts in Laserfiche indicated a hybrid document signature flow (DocuSign, Adobe and manual signatures)
    - Hybrid processes compromise chain of custody controls (documents were found which had been changed subsequent to receiving signatures from some of the parties)
- Fully executed contracts should be maintained in the City’s Laserfiche record repository. The City Clerk’s Office has lead responsibility for this process.



# *Recommendations & Management's Response*

- We recommend the City Clerk and City Manager form a committee to address all aspects of the records management process for contracts, including processing all contracts through DocuSign, to ensure that all documentation is accurate and complete before contracts are forwarded to Records Management for entry into the Laserfiche repository.

- Management's Response:  
The City Clerk's Office concurs.

# Non-Competitive Procurements

- **Emergency** – Time-critical procurements affecting safety, health or welfare of the public
- **Sole source** – Only one source practicably available to provide the required goods or services

\*\*\*\*\*These procurements require Purchasing participation and approval

# Non-Competitive Procurements

Number of Procurements		
	FY2019	FY2020
Emergency	15	13
Sole Source	41	87
FY2018 data not available		

## Audit Conclusions (Cont.)

### Non-Competitive Procurements

- ***Finding*** – Inconsistencies exist in AFMS accounting system documentation *(These findings occurred during the audit scope period which was prior to the 9/9/20 issue date of the Procurement Manual which provides detailed guidance)*
  - **Emergency** – Timeliness - emergency request memorandum was signed 4 weeks or more after the work had been performed and the vendor issued the invoice - 43% (6 of 14) items- reviewed - \$78,508 of \$169,361
  - **Sole Source**
    - Unsigned sole source memorandum attached in AFMS – 28% (6 of 21) items reviewed - \$291,056 of \$797,582
    - Sole source memorandum not attached in AFMS – 14% (3 of 21) items reviewed - \$27,211 of \$797,582
- ***Complete documentation is necessary as evidence of process compliance***

# *Recommendations & Management's Response*

- We recommend Purchasing continue efforts to communicate to departments the importance of notifying Purchasing as soon as need for emergency procurement is identified to mitigate potential for improper procurements and ensure compliance with procurement code and regulations.

- **Management's Response:**

In accordance with the Procurement Manual, a verbal or e-mail notification must be provided to Purchasing for emergency procurement needs and upon approval, work should proceed. Documentation is created and executed after alleviation of the emergency. We are continuing to communicate the importance of notifying Purchasing as soon as the need for an emergency procurement is identified.

# Exceptions to Financial System Procurement Documentation Requirements

- ***Finding*** – Certain exceptions have been granted to certain departments related to the requirements to attach documents in AFMS.
  - ❖ These departments maintain physical/paper records of expenditures support that are not a part of the permanent electronic financial record of the City.

# Exceptions to Financial System Procurement Documentation Requirements

- Exceptions include:
  - Data sourced from another system interfaced directly into AFMS
    - Human Resources – personnel costs (wages and benefits)
    - Elections – payments to election workers
    - City Treasurer – tax revenue collection
  - Departments which do not have a direct interface with AFMS via the City network due to data security concerns
    - Courts and related entities – computers are a part of the Commonwealth of Virginia network not City of Norfolk network – security risk for direct access

# *Recommendations & Management's Response*

- We recommend Finance, Information Technology and Courts Departments review and renew their efforts to create and implement a viable file transfer protocol to ensure the security, accuracy, and completeness of expenditure data entered into AFMS.

- **Management's Response:**

Finance, in working with Information Technology, has made multiple attempts to address the connection issue with Courts. Finance will continue to work to identify a viable solution.



# Audit Observation

## Contract Administration – IDIQ Contracts

- Indefinite delivery indefinite quantity (IDIQ) contracts expedite the procurement process by establishing a pre-approved pricing structure
- The City has a number of these contracts for a variety of appropriate goods and services (incl. office supplies, telephone services, maintenance and repair materials and supplies, etc.)
- **Observation** - Verification of the prices charged against the contract pricing schedules is not always performed by the department at the time of purchase
  - For several of the contracts (chiefly for goods and supplies) a pricing or discount schedule is used because the items are too numerous to identify separately

# Audit Observation

## Contract Administration – IDIQ Contracts

- Responsibility of the operating department to monitor contract compliance
  - Operating and administrative aspects
  - Initiation of contract renewal / replacement process
- Sufficiency of resources at departmental level (time and expertise) to perform this task is not assured
- ***Recommendation*** – Purchasing should consider development of a monitoring program to review departmental contract administration

# Audit Observation

## Procurement Documentation

- Purchasing must maintain documentary support as evidence of process compliance
- We observed some inconsistencies in procurement documentation  
*(Such instances occurred during the audit period which was prior to the adoption of the new Procurement Manual which provides a structured process)*
- We note there has been significant improvement in this area over the past three years
- **Recommendation** - Purchasing should continue its efforts to ensure the adequacy of documentary support

# Objectives and Methodology

## Objectives:

- Determine the efficiency and effectiveness of procurement operations and ensure compliance with laws, regulations, city and state code and internal policies and procedures

## Methodology:

- Review of policies and procedures
- Review of accounting records
- Inquiries of management and staff

# Governmental Auditing Standards

- 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 conclusions 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.

## Statement of Independence

- Norfolk City Code Chapter 11 states that the City Auditor is appointed by City Council and that employees under the City Auditor serve exclusively at-the-will of the City Auditor. Accordingly, the members of the Office of the City Auditor are independent of City Management and thus independent per the GAGAS requirements.

# Internal Control/Data Reliability

## Internal Control

- We assessed internal controls as required by GAGAS and determined the significance of internal controls to the audit objectives. We did not find significant internal control deficiencies.

## Data Reliability

- We relied on data generated from the City's Advantage Financial Management System (AFMS) and certain subsidiary accounting systems for this audit. The extent of our evaluation was dependent upon the expected importance of the data to the final report, strengths or weaknesses of any corroborating evidence, and anticipated level of risk in using the data. We determined the financial information from AFMS and the subsidiary systems that was used as the basis for the external audited financial statements to be reliable and, therefore, the level of risk from using this information to be low.

*We thank the Office of the Purchasing Agent, the Department of Finance, the City Clerk's Office and the Departmental Management of the City of Norfolk for their cooperation and responsiveness to our requests during this audit.*

If you have any questions, I can be reached at 757-409-2518 or via email at [tammie.dantzler@norfolk.gov](mailto:tammie.dantzler@norfolk.gov)